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POLITICAL AND INDUSTRIAL DEMOCRACY

1776 - 1926

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POLITICAL AND INDUSTRIAL DEMOCRACY

THE INDUSTRIAL CODE

By

W. JETT LAUCK

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CONDITIONS OF LABOR
IN AMERICAN INDUSTRIES

By

W. JETT LAUCK

AND

EDGAR SYDENSTRICKER

THE IMMIGRATION PROBLEM

By

JEREMIAH W. JENKS, Ph.D., LL.D.

AND

W. JETT LAUCK

POLITICAL AND INDUSTRIAL DEMOCRACY

1776-1926

BY

W. JETT LAUCK

Former Professor of Economics and Politics, Washington and Lee University; Secretary of Former National War Labor Board

FUNK & WAGNALLS COMPANY

NEW YORK AND LONDON

1926

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CONTENTS

CHAPTER		PAGE
I—The Movement for Industrial Democracy		1
	Political Democracy and Its Development, 1776-1926	1
	A New Conception of Democracy	4
	The Industrial Revolution and Its Effects	5
	The Fear of Industrial Autocracy	8
	The Situation When We Entered the World War	10
II—The Post-War Revolt Against Industrial Autocracy		12
	War-Time Cooperation	12
	Post-War Constructive Attitude	17
	British Industrial Conferences	18
	Canadian Industrial Parliament	19
	National Industrial Conference in This Country	22
	Second National Conference Called by the President	23
	The Attitude of the Churches Towards Social and Industrial Reconstruction.	27
	1. National Catholic War Council	27
	2. Methodist Episcopal Church; Pastoral Letter of Board of Bishops	29
	3. Presbyterian Church: General Assembly, Adopted May 21, 1919	30
	4. Episcopal Church: Joint-Commission on Social Service	30
	5. Church of England, Report of Archbishops Committee on Christianity and Industrial Problems (March, 1919)	31
	6. British Quaker Employers: Summary of Conclusions	32
	7. Federal Council of the Churches of Christ in America	34
	8. Northern Baptist Convention: Social Service Committee	36
	9. Canadian Presbyterian Church: General Assembly (June 12, 1919)	37
	10. Interchurch World Movement: Report of Findings Committee, National Industrial Conference of Christian Representatives	37
	11. English Society of Friends: Reconstruction Program	38

CHAPTER PAGE

The Declarations of Organized Labor 38
The Changed Attitude of Labor 41
A New Conception of Industry 42
The Failure of Political Democracy 43
Post-War Constructive Programs 44
Maintenance of the Present Dominance of Capital in Industry 45
The Dominance of Labor 45
Joint Control by Labor and Management 46
Municipal Ownership and Operation 47
The Predominance of the Public 47
The General Attitude 48
Industrial Conflict Succeeds the Demand for Industrial Peace and Democracy 49

III—The Fundamentals of Industrial Democracy 53

Confusion as to Concept and Definition Has Disappeared 55
The Conception of Organized Labor 57
A Prominent Merchant's View of Industrial Democracy 59
The Definition of a Large Manufacturer 60
Attitude of a Leading Engineer 61
Industrial Democracy and Efficiency 62
Dr. Eliot's Conception of Democracy in Industry . . . 64
Collective Bargaining 67
Employee Representation Not a New Movement . . . 71
The Attitude of Organized Labor 72
Employee Representation Plans and Labor Unions Should be Coordinated 79
Wages 91
Working Conditions 101
Establishment of Cooperative Machinery Between Management and Employees 103
Acquisition of Voting Stock by Employees 105
Collective Purchasing and Holding of Voting Stock Only Practical Democratic Method at Present . . . 107
Employee and Customer Provision of New Capital . . 112
Obligations of Citizenship in Industrial Democracy . . 114
A New Spirit and a New Order Will be Inaugurated . 115

IV—Practical Extent of the Movement for Industrial Democracy 130

Individual Attempts Toward Industrial Democracy . . 130
Foreign Experience Drawn Upon 132
The Spread of the Employee Representation Movement in this Country 134
Distribution of Works Councils by Industries, 1924 . . 136
Date of Origin and Source of Origin 138

CHAPTER PAGE

Distribution of Works Councils by Date of Organization and Source of Origin 138
Distribution by Types of Plans 139
Distribution of Works Councils by Dat of Organization and Type of Plan 140
Movement to Have Employees Acquire Stock in Corporations 141
Ordinary Systems of Profit-Sharing Ineffective and Declining 142
Profit-Sharing Schemes, Started, Discontinued and in Operation from 1880-1923 in Great Britain and in Northern Ireland 144
Analysis of Typical Plans Necessary 147

V—Outstanding and Representative Attempts Towards Employee Representation and Industrial Democracy 149

1. Standard Oil Company of New Jersey 151
Employee Representation Plan 151
Stock Acquisition Plan 153
Life Insurance, Sick Benefits, Annuities or Pensions 154
2. The International Harvester Company and Subsidiary Companies 155
Employee Representation Plan 156
Employee Stock Subscription Plans 159
3. Colorado Fuel and Iron Company 160
System of Collective Bargaining 160
4. The Pennsylvania Railroad 162
Plan of Representation for Shop Crafts Employees 165
Plan of Representation for Engine and Train Service Employees 168
5. Peoples Gas Light and Coke Company, Chicago . 169
6. Southern Railway 170
7. The "B. & O. Plan" 171
Joint Local Cooperative Committees 172
Joint System Committee 173
Classes of Employees Included in Plan . . . 173
8. Boston Consolidated Gas Company 173
9. The A. Nash Company, Inc. ("Golden Rule" Nash) 175
10. The Mitten or Philadelphia Rapid Transit Company Plan 177
Organization and Procedure for Collective Bargaining 179
Cooperative Association 184
Representation on Board of Directors 186

CHAPTER PAGE

The Mitten Men and Management Bank and Trust Company 186
11. Louisville Railway Company 187
12. Bank of Italy (California) 190
Method of Increasing Employees' Compensation 191
Cooperative Purchase of Stock by Employees . 191
Welfare Features 193
13. The Dennison Manufacturing Company 194
Employees Cooperative Plan 195
Partnership Plan 197
14. The Dutchess Bleachery, Inc. 199
Partnership Plan 200
15. The Employee Representation Plan of the Milwaukee Railway and Light Company and Subsidiary Companies 202
16. Wm. Filene Sons Company Cooperative Plan . 209
Employee Representation and Cooperation . . 209
17. Loyal Legion of Loggers and Lumbermen . . . 212
System of Collective Bargaining 215
18. The Printz-Beiderman Company Plan 219
Digest of Leitch Plan at Printz-Beiderman Company, 1914-1924 220
19. Ford Motor Company 224
Investment Certificate Plan 227
Wage System 227
20. Hart Schaffner and Marx, Chicago 228
Employee Representation Plan 228
Unemployment Insurance Fund 231
21. Garment Trade, Cleveland 231
Plan of Representation 231
Wage Fixing 232
Production Standards 232
Employment Guarantee 233
22. Columbia Conserve Company 233
A Democratic Test Necessary 242

VI—Leading Employee Representation and Cooperative Plans as Measured by the Fundamentals of Industrial Democracy . 243

Collective Bargaining and Cooperation under Union Agreements 244
Discrimination Against Employees Because of Trade Union Membership 259
Definite Organizations 261
Democratic Wage Standards 262

CHAPTER PAGE

Cooperation and Participation in Profits 265
1. The Mitten or Philadelphia Rapid Transit Company Plan 266
2. Wm. S. Filene Sons, Department Store, Boston . 266
3. B & O, C & N W, C & O and Canadian National Railroad Plans 267
4. Southern Railway Plan 267
5. The So-Called Rockefeller Plan of the Colorado Fuel & Iron Company 267
6. Dennison Manufacturing Company Industrial Partnership Plan 267
7. Dutchess Bleacheries and Rockland Finishing Company Partnership Plan 267
8. The A. Nash Company, Inc. ("Golden Rule" Cooperative Plan) 268
9. Ford Motor Company Bonus Payments 268
10. Bank of Italy 268
11. Boston Consolidated Gas Company 268
12. Columbia Conserve Company 268
Employee Stock Ownership and Control of Business . . 270
1. Mitten or Philadelphia Rapid Transit Company Plan 270
2. Partnership Plan of the Dennison Manufacturing Company 270
3. Bank of Italy. Stock Acquisition Plan 271
4. The A. Nash Company, Inc. ("Golden Rule" Method of Cooperation) 271
5. Columbia Conserve Company 271
Employee Representation on Boards of Directors . . . 272
1. Wm. S. Filene Sons—Cooperative Plan—Department Store 273
2. Dutchess Bleacheries—Partnership Plan . . . 273
3. Boston Consolidated Gas Company—Profit-Sharing Plan 274
4. Louisville Railway Company—Cooperative Plan . 274
5. Columbia Conserve Company 274
6. Mitten or Philadelphia Rapid Transit Company Plan of Cooperation 274
7. Dennison Manufacturing Company—Partnership Plan 274
8. A. Nash Company, Inc. ("Golden Rule" Method of Cooperation) 274
Customer and Employee Provision of New Capital . . 275
Limitation of Employee Representation Movement as Compared with Fundamental Standards of Industrial Democracy 277

CHAPTER PAGE

VII—The Best Practical Basis for a General Constructive Policy 279

Restricted Scope and Vision in General of Employee Representation Plans 279
The Torchbearers of Industrial Democracy 281
The "B. & O." Plan 282
The Columbia Conserve Company—A System of Direct Democracy 286
Rights of Employees Too Limited Under Filene Plan . . 288
The Dennison Plan—Control by a Special Class . . . 291
The Dutchess Bleacheries Plan—A Limited Partnership with Employees and Public 293
The Printz-Beiderman Company—Industrial Autocracy Under Democratic Forms 295
Endicott-Johnson Corporation—Enlightened Autocracy or Paternalism 297
The A. Nash Company, Inc.—The "Golden Rule" Unionized 299
The Mitten Plan as the Basis for a General Constructive Policy 301
In Accord With Labor Union Constructive Programs . 306
Pre-War Railway Wage Arbitrations 307
Post-War Railway Adjustments—1921-1922 309
The Anthracite Industry 310
Attitude of Organized Street Railway Employees . . . 311
What It Has Accomplished in Philadelphia 312
Practical and Not Revolutionary 316
Its Constructive Possibilities 317
The Ford Plan and Mitten Plan Contrasted 320
Best General Constructive Basis Now in Operation . . 321
Features Which Might Be Added from Other Systems . 322
Some General Conclusions 323

VIII—The Future of Industrial Democracy . . 330

From the General to the Particular 332
Education and Precedent 333
General Political Action 336
The Present and the Future 339
Industrial Democracy a Logical Supplement to Our Political Democracy 343

Appendix A—Digest of 80 Plans of Employee Representation 347

Appendix B—Employee Stock Holdings 353

POLITICAL AND INDUSTRIAL DEMOCRACY

I

THE MOVEMENT FOR INDUSTRIAL DEMOCRACY

Political Democracy and Its Development, 1776-1926

A century and a half ago political democracy, in its modern sense, had its beginning in the American colonies. Its foundations were laid down in our Declaration of Independence of Great Britain, adopted by the Continental Congress on July 4, 1776. The signers of this immortal document gave their sanction to a series of fundamental principles of human liberty and government, and to a specific enumeration of inalienable rights of personal and civil liberty, which marked a new era in the welfare and advancement of mankind. Accepting the doctrine of natural laws and of government as a social contract which had been previously developed by outstanding political philosophers of Europe, it was declared that all men are "created equal" and "are endowed by their Creator with certain inalienable rights, among which are life, liberty and the pursuit of happiness." All governments, it was as-

serted, originally derived their powers from the consent of the governed, and all rulers were merely representatives or trustees of the people, clothed with only such authority as had been granted by the people, and for the exercise of which they were accountable to the people. Hence, it was concluded, rulers and forms of government could at any time be changed by the will of the people, in whom all sovereignty ultimately rested.

The American colonists, however, supplemented this declaration of the theoretical principles of government by a series of specific rights and practical safeguards, designed to protect the individual from improper interference or tyranny of government, whether it be autocratic or democratic in form. These rights were an heritage from the political history of Great Britain, from which the greater number of the colonists or their forebears had emigrated. Freedom of speech and assembly, the right to bear arms, to trial by jury of one's peers, to hold property within the regular processes of the law, the writ of habeas corpus, and protection against ex post facto laws were added to the Constitution of the new democratic, representative republic, created after the Revolution, with the purpose of protecting the individual against any autocratic governmental tendencies. Civil and personal liberty were thus guaranteed. They were further safeguarded by the system of checks and balances placed in the Constitution itself to prevent the usurpation of arbitrary power by either the legislative,

judicial or executive branches of the new republic.

The establishment of our government upon these democratic principles and rights of personal and civil liberty was attended by no class warfare. Politically and socially, and in the holding of property, there were few distinctions in America at that time. Property in the form of virgin land was available to all. In France, however, the situation was different. Because of unrest and discontent growing out of class privileges and exploitation, the American Revolution and the form and principles of government which had been established there were followed with the most intense interest and sympathy. French discontent was centered on the evil results of the abuse of power and privilege by the ruling class. Equality and fraternity, therefore, meant more to the masses of the people of France than the practical safeguards of personal and civil liberty. As a consequence, the American declaration of the rights of man came to France with dynamic force, overturning the existing order, abolishing titles of nobility and class privileges and distinctions, and, after much bloodshed, establishing a new, democratic form of representative government. Men were made free and equal in the exercise of political power and control, but were not so fully protected in their personal and civil liberties, as in America, against the possible encroachment of their own democratic government.

From America and France, the democratic, political movement during the succeeding years practi-

cally spread over the entire civilized world. Within a century and a half the principles and forms of political democracy, which received their first impetus from the American and French revolutions, gradually found acceptance everywhere in Europe with the exception of Russia. The World War, 1914-1918, had for its object the destruction of autocracy and privilege in their last stand against democratic political control. Democratic and constitutional forms of government have even been adopted by the most populous nations of the East, such as Japan and China. These Oriental peoples were our allies in fighting the last remnants of political autocracy in Europe.

A New Conception of Democracy

Politically democracy thus may be said to have spread over the face of the entire world since the American Declaration of Independence was proclaimed. In the light of all its transcendental benefits, however, and its inexpressible boon to humanity, the democratic world has recently, and especially since the war, been in a state of unrest and dissatisfaction. The discontent evidently is not with political democracy and its blessings. There is no desire or effort outside of Russia to disrupt or overturn existing democratic institutions or ideals. It is apparent, however, that a new conception of democracy is being born, which will be a supplement to and not a substitute for our political democracy,

and which, for the lack of a better term, is designated as industrial democracy. It has had its origin and development in the marvelous changes in industry and industrial life since the American Revolution. It is the result of industrial changes which it was impossible for the signers of the Declaration of Independence or the makers of the Constitution, even most dimly, to anticipate or to foresee.

The Industrial Revolution and Its Effects

At the time of the adoption of the Constitution, the economic life of America was extremely simple. Agriculture was the only important industry. Manufacturing was in the handicraft and family stage, and, in the South, was a part only of the almost self-sufficing life of the large plantations. In the North, where independent work was done, there were no social distinctions, and personal relations were close between the master and his apprentices or workmen. The finer grades of articles required for household and personal use were almost entirely imported from Great Britain and Europe.

Almost coincident in point of time with the establishment of an independent republic in America came the early beginnings in Great Britain of what was later known as the industrial revolution. It consisted in the invention of the steam engine and the application of this new source of power to the loom, spindle, and other forms of machinery. Instead of household and small units of hand manu-

facturing, the factory system was developed under which large numbers of employees and machines were concentrated under one roof. With the application of steam to land and water transportation also, the areas of markets for the factory products were extended, and this, in turn, made possible larger mill and factory units. The telegraph and telephone further stimulated this tendency and soon markets, from being local, became national, and, from national, grew to world-wide scope. Improved mechanical inventions and processes continued to develop, and, as time went on, large scale units of production and distribution became the characteristic features of industry and trade. Population gradually was attracted from farms, villages and towns, and became more and more congested in large industrial centers.

These tendencies were transmitted to America, but, although early efforts were made to foster and stimulate manufacturers, and although manufacturing industries were rapidly developed, the United States remained predominantly an agricultural country until long after the Civil War. With the rapid disappearance of western land for settlement, however, during the closing quarter of the past century, our manufacturing and mining industries experienced a phenomenal growth. Our basic industries became more integrated and, comparatively speaking, assumed colossal proportions. By bringing together all the elements entering into the manufacture of finished products and by the utilization

of new machines and processes for which Americans had already displayed unique genius, economies were secured which made possible the production of commodities in large quantities at small costs. The necessary direction of this large scale production was secured by the creation of artificial legal personages, known as industrial corporations, in which gradually became centered on a national or international scale, the control of basic industries, which employed thousands of men and women engaged in the production of essential commodities.

The effects of this development upon social and political life were extremely serious. The capital essential to large enterprises was collected from many and widely separated sources through subscriptions to the securities of industrial corporations. Instead of personal or locally owned industry, absentee and detached ownership and control developed. There was no contact, as in former years, between the owners of an industry and its employees. The breakdown of personal relations between employers and employees was complete. In addition, the capital requirements of our large industrial, transportation and commercial corporations became so great that banking institutions also had to be developed on a commensurate scale. Credit facilities, as a consequence, were evolved on a national and international basis, and as large scale production was vitally dependent on these fiscal agencies, to a large extent private bankers and financial institutions, and not management or stock-

holders, dominated the labor and other policies of these stupendous enterprises.

The Fear of Industrial Autocracy

As the result of these conditions, it became increasingly evident to wage-earners and consumers that they were threatened with industrial autocracy. All personal relations between employers and employees having disappeared through the growth of immense industrial units, wage-earners soon realized that their hope of protection lay in meeting organization with organization, or economic bargaining strength with economic bargaining power. The individual wage-earner was helpless. Trade and industrial unions of workers were, therefore, formed on a national basis. National associations of employers were also organized. Economic strength in bargaining, rather than considerations of humanity and economic justice, became the determining force in fixing wages and conditions of employment of industrial workers. Cooperation between employers and employees rapidly disappeared. It was supplanted by industrial strife and frequent industrial dislocations which often were accompanied by a complete breakdown of civil government and of constitutional rights and guarantees.

Unrest and discontent among industrial workers in the period immediately preceding the World War was prevalent. Their representatives claimed that they were not receiving a fair participation in the

output of industry. They demanded the representation of employees in determining wages and the conditions under which they worked. They complained that it was a violation of democratic rights and principles to be required to work without having a voice in the determination of the conditions of their labor. The detached consumer, although not so directly affected as the industrial employee, was also apprehensive as to the effect of these huge corporate entities which had developed in manufacturing, mining, trade and transportation. He feared exploitation through arbitrary fixing of prices and the impairment of his own economic well-being. In addition, both consumers and wage-earners, as well as all classes of thoughtful public opinion, feared the constantly growing tendency of the new order in industry and finance to dominate democratic institutions.

A constructive movement towards reform was being inaugurated immediately prior to our entrance into the World War. The Interstate Commerce Commission and the Shipping Board had been created to control the activities of transportation corporations. Similar commissions had been established in the several states. Both the federal and state governments had provided for departments charged with protecting the interests and promoting the welfare of labor in industry. Investigations had been made by committees of the Congress to ascertain the concentration of control of capital, banking and credit and its effect upon industrial activities and

policies.[1] Constructive proposals had been formulated, and, in a partial way, already realized by the democratization of our commercial banking system through the establishment in 1912 of the Federal Reserve System. On the other hand, a few far-seeing industrial leaders were also, prior to the war, voluntarily establishing within their own plants plans for bringing about greater democracy in industry and for making possible cooperation between management and employees.

The Situation When We Entered the World War

These and other measures of conservative change were manifesting themselves when it became our duty to enter the world conflict against political autocracy in Europe, and "to make the world safe for democracy." Before this momentous decision in our political life had been reached, however, enlightened opinion had begun to be fairly well crystalized to the effect that the wonderful industrial development of our country, which during the preceding century had accompanied the evolution of our political democracy, had produced a situation where it was essential to have democratic representative government in industry and democratic control of industry before our democratic ideals and

[1] Report of Committee to Investigate the Concentration of Control of Money and Credit, Washington, Government Printing Office—1913.

Final Report, U. S. Commission on Industrial Relations—Washington, Government Printing Office—1916.

aspirations could become fully realized. As the result of general dissatisfaction and resultant agitation, this new conception of democracy was being vigorously put forward when it became our duty to give our support to the embattled democracies of Great Britain and Europe.

II

THE POST-WAR REVOLT AGAINST INDUSTRIAL AUTOCRACY

War-Time Cooperation

Shortly after our entrance into the World War in April, 1917, conflict between capital and labor practically ceased. For a time it was necessary through governmental agencies to make many adjustments, but finally both parties agreed to a truce for the war-time period and concentrated their efforts on maintaining continuity of industrial operation and the maximum of production so essential to the successful conduct of the war. Early in the year 1918, the American Federation of Labor, representing employees, and the National Industrial Conference Board, in behalf of employers, were called into conference by President Wilson, and mutually agreed upon a series of principles for the regulation of industrial relations and conditions during the war period. The important provisions of this war-time code, which was officially proclaimed by the President, were as follows: [1]

[1] Report of Secretary, War Labor Board—Washington—Government Printing Office, 1919.

PRINCIPLES AND POLICIES TO GOVERN RELATIONS BETWEEN WORKERS AND EMPLOYERS IN WAR INDUSTRIES FOR THE DURATION OF THE WAR

There Should Be No Strikes or Lockouts during the War

Right to Organize

The right of workers to organize in trade-unions and to bargain collectively through chosen representatives is recognized and affirmed. This right shall not be denied, abridged, or interfered with by the employers in any manner whatsoever.

The right of employers to organize in associations or groups and to bargain collectively through chosen representatives is recognized and affirmed. This right shall not be denied, abridged or interfered with by the workers in any manner whatsoever.

Employers should not discharge workers for membership in trade-unions, nor for legitimate trade-union activities.

The workers, in the exercise of their right to organize, should not use coercive measures of any kind to induce persons to join their organizations nor to induce employers to bargain or deal therewith.

Existing Conditions

In establishments where the union shop exists the same shall continue, and the union standards as to wages, hours of labor, and other conditions of employment shall be maintained.

In establishments where union and non-union men and women now work together and the employer meets only with employees or representatives engaged in said establishments, the continuance of such conditions shall not be deemed a grievance. This declaration, however, is

not intended in any manner to deny the right or discourage the practice of the formation of labor unions or the joining of the same by the workers in said establishments, as guaranteed in the preceding section, nor to prevent the War Labor Board from urging or any umpire from granting, under the machinery herein provided, improvement of their situation in the matter of wages, hours of labor, or other conditions as shall be found desirable from time to time.

Established safeguards and regulations for the protection of the health and safety of workers shall not be relaxed.

Women in Industry

If it shall become necessary to employ women on work ordinarily performed by men, they must be allowed equal pay for equal work and must not be allotted tasks disproportionate to their strength.

Hours of Labor

The basic eight-hour day is recognized as applying in all cases in which existing law requires it. In all other cases the question of hours of labor shall be settled with due regard to governmental necessities and the welfare, health, and proper comfort of the workers.

Maximum Production

The maximum production of all war industries should be maintained and methods of work and operation on the part of employers or workers which operate to delay or limit production, or which have a tendency to artificially increase the cost thereof, should be discouraged.

Mobilization of Labor

For the purpose of mobilizing the labor supply with a view to its rapid and effective distribution, a permanent

list of the numbers of skilled and other workers available in different parts of the country shall be kept on file by the Department of Labor, the information to be constantly furnished—

(1) By the trade-unions.
(2) By state employment bureaus and federal agencies of like character.
(3) By the managers and operators of industrial establishments throughout the country.

These agencies shall be given opportunity to aid the distribution of labor as necessity demands.

Custom of Localities

In fixing wages, hours, and conditions of labor, regard should always be had to the labor standards, wage scales, and other conditions prevailing in the localities affected.

The Living Wage

(1) The right of all workers including common laborers to a living wage is hereby declared.

(2) In fixing wages, minimum rates of pay shall be established which will insure the subsistence of the worker and his family in health and reasonable comfort.

The President, by proclamation of April 8, 1918, established the National War Labor Board, composed of representatives of capital, labor, and the public, to interpret and practically apply the foregoing principles. This body became, as it were, the supreme court of industry, and under its jurisdiction this code of abstract industrial laws was generally observed during the war period. With some

few exceptions, both labor and capital put aside their pre-war differences, and worked together for the common good. The general attitude of both parties to industry may be well illustrated by quoting in part a resolution for the guidance of industry which was unanimously adopted by the War Labor Board on July 31, 1918. It stated: [2]

That this war is not only a war of arms, but also a war of workshops; a competition in the quantitative production and distribution of munitions and war supplies, a contest in industrial resourcefulness and energy;

That the period of the war is not a normal period of industrial expansion from which the employer should expect unusual profits or the employees abnormal wages; that it is an interregnum in which industry is pursued only for common cause and common ends;

That capital should have only such reasonable returns as will assure its use for the world's and nation's cause, while the physical well-being of labor and its physical and mental effectiveness in a comfort reasonable in view of the exigencies of the war should likewise be assured.

So far as industrial progress was concerned, the attitude was, therefore, taken that the war was an interregnum, and care was exercised by both capital and labor not to make claims based on the approved views of progress in normal times. Every effort was centered on winning the war, and to the avoidance of situations which, under war conditions, might seriously impair the economic structure and activities of the country.

[2] Report of Secretary of National War Labor Board—Washington Government Printing Office—1919; or see "The Industrial Code," Lauck and Watts, Appendix A., p. 273.

Post-War Constructive Attitude

The more intelligent and liberal industrial executives, labor leaders, publicists and statesmen, because of the remarkable achievements of industry during the war arising from the unprecedented spirit of cooperation which prevailed between employers and employees, hoped, in part, at least, to see this spirit carried over into the normal times of peace. After the Armistice, measures were taken and proposals made to realize this purpose. It was urged, both in this country and abroad, that there should be peace in industry after the war just as it was hoped there would be peace and cooperation between nations. The experience obtained during the war and the principles followed, it was claimed, should be made the basis of a new industrial order, which would eliminate pre-war inequalities and discontent, stimulate cooperation and maximum production, and inaugurate a new régime of democracy and human welfare. With these objects in view, industrial conferences or constitutional conventions, so to speak, were called by the premiers of Great Britain and Canada, and the President of the United States, to determine the principles and machinery which would minimize industrial conflict, accept common counsel and cooperation as the basis of procedure, and bring industrial relations and conditions into harmony with democratic institutions and ideals.

British Industrial Conferences

On February 15, 1919, Premier Lloyd-George made the announcement through the British press that the government had under consideration the convening of a National Industrial Conference of employers and employees for the purpose of discussing the general labor situation. The definite arrangements for such a conference were put into the hands of Sir Robert Horne, Minister of Labour, who, on February 18, issued invitations to the large employers' associations and trade-unions of the country to meet together in Central Hall, Westminster, on the morning of February 27. On the date set, eight hundred delegates assembled as the National Industrial Conference, five hundred representing employees and three hundred employers.

The lack of a set program led to generalized and rather vague speeches, especially on the part of the labor leaders, who took the opportunity to air all their grievances, but in spite of bitterness displayed by a few of the radical element, there was apparent in the majority of those present a genuine desire to cooperate in restoring industry to its normal balance, shown by the willingness on the part of the trade unionists not to go too far in their demands, and a readiness on the employers' part to concede better working conditions and a share in management. A Joint Sub-Committee was appointed to draft a report which it submitted to a reconvened meeting of the Full Conference on April 4, 1919.

This report enumerated the principles and standards which should obtain in industry, recommended complete recognition of employers' and employees' organizations and use of their joint efforts for promoting peace and cooperation, and advocated the establishment of a permanent National Industrial Council to consist of 400 members (200 to be elected by employers and 200 by trade-unions) to consider measures affecting industrial relations, and to advise the government on national industrial questions. The conference unanimously adopted the report but demanded the government's acceptance before it should be referred to the unions or employers' associations. The government, unfortunately, after long delay, failed to declare its readiness to proceed with the legislation and other steps necessary to carry the report into effect, and, as a consequence, the work of the Conference came to nought.[3]

Canadian Industrial Parliament

The Canadian Royal Commission on Industrial Relations, whose report was filed with the government on June 29, 1919, recommended the calling of a national conference of employers and employees to discuss with the premiers of the provinces the principles underlying industrial relations with a

[3] Monthly Labor Review, U. S. Bureau of Labor Statistics, November, 1919, p. 40. Handbook of Industrial Relations and Conditions—compiled by the Bureau of Applied Economics, Washington, 1920—pp. 51-61.

view to their enactment into law by the provinces, in so far as such legislation was not within the competence of the Federal Parliament of Canada. In pursuance of this recommendation, the government called a National Industrial Conference to meet in Ottawa during the week of September 15 to 20, 1919, to consider the subject of industrial relations, labor legislation, and the labor features of the Peace Treaty.[4]

The Conference was composed of 194 delegates, 77 each representing employers and employees and 40 the general public. In addition, the premiers of the provinces and other provincial officials sat with the gathering.

The delegates to the Conference were invited by the Minister of Labour. The employees' group represented the membership of the unions composing the so-called international unions, which are affiliated with the corresponding craft unions composing the American Federation of Labor. The delegates on the employers' side reflected all shades of opinion among Canadian manufacturers, and were said to be very representative of the group interests. The third, or non-partisan, group was composed of various interests, employers, employees, educators and public officials. All the members of the labor committee of the Reconstruction and Development Committee of the Privy Council or Cabinet and

[4] From Monthly Labor Review, U. S. Bureau of Labor Statistics, Nov., 1919, pp. 51-62. Handbook of Industrial Relations and Conditions—Bureau of Applied Economics, Washington, 1920, pp. 33-49.

some members of the Royal Commission on Industrial Relations were in this group, together with the secretary of the former United States National War Labor Board.

The Conference met primarily to discuss the recommendations of the Royal Commission on Industrial Relations. The agenda prepared in advance for the Conference—partly revised the second day of the proceedings—laid down principal topics for discussion, as follows:

(1) Uniformity in labor legislation throughout the Dominion.
(2) Hours of labor.
(3) Minimum wage legislation.
(4) Employees' right to organize, recognition of labor unions, collective bargaining.
(5) Proposed esablishment of joint industrial councils.
(6) State insurance against unemployment, sickness, invalidity, old age, etc.
(7) Proportional representation.
(8) Application where possible of the principle of democratic management recommended by the Commission on Industrial Relations in work controlled by the Government.

In form and manner of procedure the Canadian Industrial Conference was a parliamentary gathering met to discuss the advisability of enacting into laws certain principles to govern industrial rela-

tions. Debate on the merits of each question proceeded in the usual parliamentary form. Not confronted, however, with the need of either enacting into law or of formulating a code of principles for the regulation of industry, the Conference more readily disposed of matters in dispute by passing them on for further investigation by other governmental bodies. As a consequence, there were no immediate constructive benefits from the Canadian meeting.

National Industrial Conference in This Country

On September 3, 1919, following considerable public discussion on the subject, President Wilson sent letters to representatives of employers and of labor, as well as to representatives of the public, inviting them to participate in a National Industrial Conference to meet in Washington on October 6. The specific purpose of the Conference was stated by the President in his call as that of "consulting together on the great and vital questions affecting our industrial life, and their consequent effect upon all of our people." It would be the duty of the Conference, he stated, to "discuss such methods as have already been tried out of bringing capital and labor into close cooperation, and to canvass every relevant feature of the present industrial situation for the purpose of enabling us to work out, if possible, in a genuine spirit of

cooperation, a practicable method of association based upon a real community of interest which will redound to the welfare of all our people."

The Conference was unable, however, to work out any program. After the withdrawal of the labor group and the departure of the employers' group on October 22, the President suggested that the public group continue its sessions. The Conference, however, was finally declared abandoned on October 23. The public group met briefly on the 23rd and 24th, and after making public a statement of the results of the Conference, adjourned.[5]

Second National Conference Called by the President

A second Industrial Conference was called by President Wilson on December 1, 1919. Owing to the failure of labor and capital to agree at the first Conference, the membership of the second was composed entirely of distinguished and disinterested representatives of the public, under the chairmanship of the Secretary of Labor, who were charged with the duty of working out a constructive industrial program.

The report of the Conference was submitted to the President on March 6, 1920. It recommended the establishment on a national scale of certain ma-

[5] From the Monthly Labor Review of the U. S. Bureau of Labor Statistics, November, 1919, pp. 40-49. Handbook of Industrial Relations and Conditions—Bureau of Applied Economics, pp. 3-16.

chinery for the judicial settlement of industrial disputes and set forth a series of fundamental principles for the guidance of industrial relations which should be mandatory upon the operation of this machinery. It also discussed the existing industrial situation significantly, and, in part, as follows:[6]

Today we have a complex interweaving of vital interests. But we have as yet failed to adjust our human relations to the facts of our economic interdependence. The process toward adjustment, though slow, nevertheless goes on. The right relationship between employer and employee in large industries can only be promoted by the deliberate organization of that relationship. Not only must the theory that labor is a commodity be abandoned, but the concept of leadership must be substituted for that of mastership. New machinery of democratic representation may be erected to suit the conditions of present industry and restore a measure of personal contact and a sense of responsibility between employer and employee. The more recent development of such machinery with the cooperation of organized labor is a hopeful sign. But back of any machinery must be the power which moves it. Human fellowship in industry may be either an empty phrase or a living fact. There is no magic formula. It can be a fact only if there is continuous and sincere effort for mutual understanding and an unfailing recognition that there is a community of interest between employer and employee.

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The plain fact is that the public has long been uneasy about the power of great employers; it is becoming uneasy

[6] This report was printed in full by the U. S. Department of Labor. It is reprinted in "The Industrial Code," by W. Jett Lauck and Claude S. Watts, Funk & Wagnalls, New York, 1922, Appendix F., pp. 326-380.

about the power of great labor organizations. The community must be assured against domination by either.

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The causes of industrial unrest are many. Among others they include the rise in the cost of living, unrestrained speculation, spectacular instances of excessive profits, excessive accumulation and misuse of wealth, inequality in readjustments of wage schedules, release of ideas and emotions by the war, social revolutionary theories imported from Europe, the belief that free speech is restricted, the intermittency of employment, fear of unemployment, excessive hours of work in certain industries, lack of adequate housing, unnecessarily high infant mortality in industrial centers, loss of personal contact in large industrial units and the culmination of a growing belief on the part of both employers and employees that a readjustment is necessary to a wholesome continuity of their united effort.

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There is, however, a feature of the present industrial unrest which differentiates it from that commonly existing before the war. It cannot be denied that unrest today is characterized more than ever before by purposes and desires which go beyond the mere demand for higher wages and shorter hours. Aspirations inherent in this form of restlessness are to a greater extent psychological and intangible. They are not for that reason any less significant. They reveal a desire on the part of workers to exert a larger and more organic influence upon the processes of industrial life. This impulse is not to be discouraged, but made helpful and cooperative. With comprehending and sympathetic appreciation, it can be converted into a force working for a better spirit and understanding between capital and labor, and for more effective cooperation.[1]

The guiding thought of the Conference has been that the

[1] The italics are not those of the Commission but of the Author.

right relationship between employer and employee can be best promoted by the deliberate organization of that relationship. . . . It should emphasize the responsibility of managers to know men at least as intimately as they know materials, and the right and duty of employees to have a knowledge of the industry, its processes and policies. Employees need to understand their relation to the joint endeavor so that they may once more have a creative interest in their work.

Industrial problems vary not only with each industry but in each establishment. Therefore, the strategic place to begin battle with misunderstanding is within the industrial plant itself. Primarily the settlement must come from the bottom, not from the top.

* * * * * * *

It should be borne in mind that today, when the sense of the magnitude and danger of social unrest is still acutely upon us, when we have not yet reverted to settled habits of thought and action, when our economic life is still in a state of readjustment, it may be possible to establish ideals and set machinery which the inertia of a later day may defeat. Not with any feeling of panic, not with any hysterical haste, but sanely and sensibly we urge that these reforms be put into effect. *And we do so with the belief that they will not only contribute largely toward the elimination of the causes of industrial strife, but that they will make for the introduction in American industry, of those democratic principles which constitute the most precious heritage of the American Citizen.*

The report of the Conference was advisory, of course, and was transmitted to the Congress by the President for its information, and was widely published and discussed. Because of the intelligence and distinguished personnel of the membership it had a profound effect upon constructive thought and effort.

The Attitude of the Churches Towards Social and Industrial Reconstruction

Churches of all denominations, also, without exception, united after the war in declaring for a new industrial order based upon the recognition of fundamental human rights. Industry, it was asserted, should be looked upon as primarily an opportunity for service and not for profit. All elements of autocracy, whether in the determination of wages, working conditions or in the control of industry itself, should be eliminated. The spirit of cooperation and of democracy, it was pointed out, should be the constraining force in industrial operations. Wage-earners should be given a voice in determining working standards, and in promoting efficiency and productivity. They should be granted representation on boards of directors of industrial corporations and should be encouraged, it was declared, to become partners and owners in industrial undertakings through stock-purchases and other methods.

Representative quotations from these statements and programs are of the greatest significance in their opposition to industrial autocracy and in their support of a democratic, industrial order. Some of these, briefly, are as follows:

1. *National Catholic War Council*[8]

> The right of labor to organize and to deal with employers through representatives has been asserted above

[8] This pronouncement was issued in 1919 by the Administrative Committee of the National Catholic War Council, and signed by the

in connection with the discussion of the War Labor Board. It is to be hoped that this right will never again be called in question by any considerable number of employers. In addition to this, labor ought gradually to receive greater representation in what the English Group of Quaker employers have called the "industrial" part of business management—"the control of processes and machinery; nature of product; engagement and dismissal of employees; hours of work, rates of pay, bonuses, etc.; welfare work; shop discipline; relations with trade-unions." The establishment of shop committees, working wherever possible with the trade-union, is the method suggested by this group of employers for giving the employees the proper share of industrial management. There can be no doubt that a frank adoption of these means and ends by employers would not only promote the welfare of the workers, but vastly improve the relations between them and their employers, and increase the efficiency and productiveness of each establishment.

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Nevertheless the full possibilities of increased production will not be realized so long as the majority of workers remain mere wage-earners. The majority must somehow become owners, or at least in part, of the instruments of production. They can be enabled to reach this stage gradually through cooperative productive societies and copartnership arrangements. In the former, the workers own and manage the industries themselves; in the latter they own a substantial part of

Right Reverend Peter J. Muldoon, Bishop of Rockford; the Right Reverend Joseph Schrembs, Bishop of Toledo; the Right Reverend Patrick J. Hayes, Bishop of Tagaste; and the Right Reverend William T. Russell, Bishop of Charleston. It was published as Reconstructive Pamphlet No. 1 by the Committee on Special War Activities of the National War Council, Washington, D. C. The full title is "Social Reconstruction, a General Review of the Problems and Survey of Remedies."

the corporate stock and exercise a reasonable share in the management. However slow the attainments of these ends, they will have to be reached before we can have a thoroughly efficient system of production, or an industrial and social order that will be secure from the danger of revolution. It is to be noted that this particular modification of the existing order, tho far-reaching and involving to a great extent the abolition of the wage system, would not mean the abolition of private ownership. The instruments of production would still be owned by individuals, not by the State.

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This is the human and Christian, in contrast to the purely commercial and pagan, ethics of industry.

2. *Methodist Episcopal Church: Pastoral Letter of Board of Bishops*[9]

The Bishops of the Methodist Episcopal Church, assembled in regular session, call upon the ministers and laymen of the Church to give most earnest heed to the application of Christian principles to social reconstruction. . . . If Christianity is a driving force, making for democracy, we can not put a limit upon the extension of democracy; we must recognize the inevitability of the application of democracy to industry. While we rejoice in the adoption of all such ameliorative measures as better housing and various forms of social insurance, we call for the more thoroughgoing emphasis on human freedom, which will make democratic progress mean the enlargement and enrichment of the life of the masses of mankind through the self-directive activity of men themselves.

We favor an equitable wage for laborers, which shall have the right of way over rent, interest and profits.

[9] Published in the "Christian Advocate," New York City, May 22, 1919. Adopted by the Board of Bishops of the Methodist Episcopal Church, Buffalo, N. Y., May 10, 1919.

We favor collective bargaining, as an instrument for the attainment of industrial justice and for training in democratic procedure.

And we also favor advance of the workers themselves through profit sharing and through positions on boards of directorship.

In the discussion of all such matters we urge all individuals and groups to hold fast the tolerance which comes out of mutual respect, and to keep always in mind that the richest source of sound social idealism is the Gospel of Jesus Christ.

3. *Presbyterian Church: General Assembly, Adopted May 21, 1919*

Whereas the General Assembly has learned with great satisfaction that the President in his message to Congress under date of May 20, 1919, has expressed himself in reference to the industrial problem in the following terms:

"The object of all reform in this essential matter must be the genuine democratization of industry, based upon a full recognition of right of those who work, in whatever rank, to participate in some organic way in every decision which directly affects their welfare or the part they are to play in industry."

Be it therefore Resolved, That the General Assembly of the Presbyterian Church of the United States of America, in session assembled in the city of St. Louis, May 21, 1919, does heartily approve of the President's courageous, wise and timely deliverance.

4. *Episcopal Church: Joint-Commission on Social Service*

All (programs) alike, however, agree that now is the time when something must be done to insure to the workers and the generally less-favored classes a far greater approximation to substantial justice as between

man and man than has thus far, even under the stress of war, been achieved. From these programs in general emerges the clear conviction that labor throughout the world is less and less satisfied with increased wages, decreased hours, and improved conditions of toil, and is more and more insistent on a greater share, if not the greater share, in the control as well as the proceeds of industry. It is really industrial democracy in the fullest sense to which even the international programs or "planks" of labor are primarily directed. It would be folly for the Church to ignore them. Particularly to be commended for study are the Church of England's report on industry, which here follows the program and resolutions of the British Labor Party, and the statement of interallied labor aims as taking in general the same economic ground, and the various reconstruction statements of the American Catholic War Council, the Canadian Methodist Conferences, the English Friends and the English Church Socialist League. These religious utterances . . . include some of the most radical demands made by any reconstruction conference or agency.

5. *Church of England: Report of Archbishops' Committee on Christianity and Industrial Problems (March, 1919)*

The core of the report may be found in the section (Chapter IV) devoted to "urban life and industry," in which it follows, generally speaking, the lines of the British Labor Party Program (supra). The report accepts the wage-system but insists that a new spirit must be introduced into industry and economic life in general, which shall provide for "cooperation for public service, not competition for private gains" as "the true principle of industry." [10]

[10] Handbook of Industrial Relations, Bureau of Applied Economics, 1920, pp. 447-456.

6. *British Quaker Employers: Summary of Conclusions*[11]

The point of view from which we have sought to approach the problem is that employers are persons fulfilling certain necessary functions of organization in the great process of industry, side by side with all others engaged in performing the other functions necessary to the maintenance of that process, and that each of these functions demands its own qualities of character and capacity and carries with it its own obligations and responsibilities. We speak only for employers engaged in the actual management of business, but we wish to state our opinion that share-holders can not divest themselves of their responsibility for the conditions under which their dividends are earned. . . . We believe that it is only in so far as those engaged in industry are inspired by a new spirit and regard industry as a national service, to be carried on for the benefit of the community, that any general improvement in industrial relations is possible.

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The worker asks today for more than improvement in his economic position. He claims from employers and managers the clear recognition of his rights as a person. The justice of this claim our religion compels us to admit. We can not regard human beings as if they were merely so many units of brain power, so many of nervous or muscular energy. We must co-operate with them, and treat them as we ourselves should wish to be treated. This position involves the surrender by capital of its supposed right to dictate to labor the conditions under which work shall be carried on. It involves more; the frank avowal that all matters affecting the workers should be decided in consultation

[11] Survey, New York, November 23, 1918.

with them, when once they are recognized as members of an all-embracing brotherhood.

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We believe that in equity the community may claim the greater part of surplus profits. If this is not taken in the form of taxation, we think that it should be regarded by those into whose hands it passes as held in trust for the community. . . . If the profits are taken in the ordinary way by the proprietor, they should be regarded as a trust and spent for the common good, or the proprietors might limit the amount they themselves took out of the business, while surplus profits were put into a separate account, and spent, at the joint discretion of the proprietors and workers, for the benefit of the general public. Our point is that the bulk of them at least belongs to the community and should be used in its interests.

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Some employer may tell us that we are asking him to draw too many practical inferences from a religious formula. But the conviction we have outlined is more than a formula. It is a vantage ground, from which we can survey the whole field of social and industrial life, seeing in it, not sheer blind turmoil, but a vast meaning and a vast hope. There is but one way of escaping from the implications of such a conviction, to abandon it entirely, to forsake the vantage ground, and to forget the only vision that could dominate our whole lives. Then the world of industry may revert to a soulless chaos in which we strive for our own ends. But those ends, even as we achieve them, will seem meaningless and vain.

Doubtless, to take the other course, and claim for our religious faith the final word upon the problems with which industry confronts us, may tax severely not only

our financial resources, but heart, and will, and brain. But is this a disadvantage?

7. *Federal Council of the Churches of Christ in America*

In some respects, the most urgent question before the world at the present time is the method of social reconstruction; shall it be by constitutional and peaceable methods, or by class struggle and violence? Shall we be willing to suddenly overturn the social order according to untried theories of industrial and political organization; or beginning where we are, and conserving what has been achieved in the past, shall we proceed by social experimentation, going as far and as fast as experience demonstrates to be necessary and desirable? In America, where, as in England, the people hold political power and freedom of discussion and association, and can do finally whatever they will, there is every reason for following the second method.

The supreme teachings of Christ are of love and brotherhood. Those express themselves, in a democracy, in the cooperation of every citizen, for the good of each and all. This results ideally in a noble mutualism and in equal and world-wide justice, which constitute the highest goal of human endeavor. The doctrine of the class-conscious struggle is opposed to this ideal. It is a reversion to earlier forms of competitive struggle. It not only strikes at injustice by greater and more savage injustice, but tends in practice to the breaking up of society, even of radical groups, into bitterly antagonistic factions, thus defeating its own ends. The dictatorship of the proletariat in practice is a new absolutism in the hands of a few men, and is as abhorrent as any other dictatorship. The hope of the world is in the cooperation of individuals and classes and the final elimination of classes in the brotherhood of a Christian society. To

build up this cooperation should be the supreme endeavor of the churches.

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A deep cause of unrest in industry is the denial to labor of a share of industrial management. Controversies over wages and hours never go to the root of the industrial problem. Democracy must be applied to the government of industry as well as to the government of the nation, as rapidly and as far as the workers shall become able and willing to accept such responsibility. Laborers must be recognized as being entitled to as much consideration as employers and their rights must be equally safeguarded. This may be accomplished by assuring the workers, as rapidly as it can be done with due consideration to conditions, a fair share in control, especially in matters where they are directly involved; by opportunity for ownership, with corresponding representation; or, by a combination of ownership and control in cooperative production.

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One high value which comes with the participation of labor in management is that it makes possible again the hearty cooperation of all engaged in an industry and a new era of good will. Therefore, along with the rights involved in social justice go corresponding obligations. With the development of industrial democracy, the evidences of which are all about us, and the coming of the short work-day the importance of genuine cooperation in industrial processes and efficient production must be impressed upon large numbers of workers.

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The Christian and modern conception of industry makes it a public service. The parties of interest are not only labor and capital, but also the community, whose interest transcends that of either labor or capital.

8. *Northern Baptist Convention: Social Service Committee*

It is evident to all that there must be some thoroughgoing changes in the industrial order. The principle of democracy must find interpretation and realization in industrial relations. Some way must be found whereby all parties in industry can be associated as partners in the enterprise. Some organization of industry must be created which shall make for confidence and good will. And some policies must be established that shall secure a more just and equitable distribution of the proceeds of industry. The following are the principles which need interpretation and emphasis:

(1) The conviction that industry is a social service existing for the sake of life, and the insistence that in its processes, methods, and results it shall serve human well-being—"He profits most who serves best."

(2) The recognition that all parties in industry—investors, managers, workers, the community—are partners, and the cultivation of an attitude of confidence, cooperation, justice, good will on the part of all.

(3) The creation of a constitution or charter for industry, defining the terms and conditions of labor, providing adequate and speedy redress of wrong on a basis of social justice, insuring representation by all parties, and providing for a progressive participation by all in knowledge of the enterprise, a voice in its direction, and an equitable share in its proceeds.

(4) As steps toward full industrial democracy; provision for organization of the workers, with collective bargaining; the creation by industry and society together of adequate means for investigation, conciliation, and arbitration in all disputes.

9. *Canadian Presbyterian Church: General Assembly (June 12, 1919)*

The General Assembly would remind the management of our industries of their obligation to promote in every way open to them the welfare and the interests of those who serve them. The Assembly warmly commends movements now afoot in many of our industries toward the following ends:

"Toward giving the workers a voice in determining the conditions under which their work is to be done, and a proper share in the control of industry;

"Toward giving the workers an equitable share in the wealth jointly produced;"

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The General Assembly affirms its conviction that the right of the workers to organize is fundamental in the present state of society, and that the right of the members of each craft to deal through their chosen representatives with the management of the industries in which they are working should be recognized at once by their employers and by the State.

10. *Interchurch World Movement: Report of Findings Committee, National Industrial Conference of Christian Representatives*

Increasing numbers of intelligent and conscientious people believe that the conflict between the principles of Jesus and an industrial system based upon competition for private profit is sharply drawn. Those who believe that the present distress is not incurable under the present order have a great responsibility. Immediate and demonstrable progress must be made in applying moral principles and methods. Cooperation is imperative. Thus only can we bridge the gulf already existing between those who look only for an entirely new order

and the forces of conservation. The interests of the stability as well as of the progress of our civilization make imperative an earnest consideration of the principles and proposals above outlined.

11. *English Society of Friends: Reconstruction Program*

Our rejection of the methods of outward domination and of the appeal to force applies not only to international affairs but to the whole problem of industrial control. Not through antagonism but through cooperation and good will can the best be attained for each and all. Mutual Service should be the principle upon which life is organized. Service, not private gain, should be the motive of all work. The ownership of material things, such as land and capital, should be so regulated as best to minister to the needs and development of man.

The Declarations of Organized Labor

Proposals and declarations relative to the post-war situation in industry were also put forward after the Armistice by associations of employers, chambers of commerce, and labor organizations. Some of the most important of these were the statement of principles submitted by the Employers' Group and the Labor Group to the National Industrial Conference called by President Wilson in Washington during October, 1919; Principles of Industrial Relations adopted in the Reconstruction Program of the American Federation of Labor, 1918; and a Statement on Labor's Grievances, Protest and Demands, issued by a General Labor Con-

ference in Washington, during December, 1919.[12] The declarations of organizations of employers had principally to do with matters of production and of specific principles relative to working conditions and wages. These were primarily concerned with a restatement of the pre-war attitude of certain reactionary groups which centered in the National Industrial Conference Board. Declarations of labor organizations were mainly directed toward protesting against pre-war conditions and the perpetuation of industrial autocracy. The most important of the labor statements are of special value as showing officially the post-war aspirations and ideals of organized labor in 1918-1919.

The following quotations are from the Reconstruction Program of the American Federation of Labor:

> The World War has forced all free peoples to a fuller and deeper realization of the menace to civilization contained in autocratic control of the activities and destinies of mankind.
>
> It has caused a world-wide determination to overthrow and eradicate all autocratic institutions, so that a full measure of freedom and justice can be established between man and man and nation and nation.
>
> It has awakened more fully the consciousness that the principles of democracy should regulate the relationship of men in all their activities. . . .
>
> . . . New conceptions of human liberty, justice, and opportunity are to be applied.
>
> The American Federation of Labor, the one organization representing labor in America, conscious that its responsi-

[12] Complete reprints of these statements may be found in "The Industrial Code," Lauck and Watts, pp. 496-535.

bilities are now greater than before, presents a program for the guidance of labor, based upon experience and formulated with a full consciousness of the principles and policies which have successfully guided American trade-unionism in the past.

Two codes of rules and regulations affect the workers: The law upon the statute books and the rules within industry.

The first determines their relationship as citizens to all other citizens and to property.

The second largely determines the relationship of employer and employee, the terms of employment, the conditions of labor, and the rules and regulations affecting the workers as employees. The first is secured through application of the methods of democracy in the enactment of legislation, and is based upon the principle that the laws which govern a free people should exist only with their consent.

The second, except where effective trade-unionism exists, is established by the arbitrary or autocratic whim, desire, or opinion of the employer and is based upon the principle that industry and commerce can not be successfully conducted unless the employer exercises the unquestioned right to establish such rules, regulations, and provisions affecting the employees as self-interest prompts.

It is as conceivable that the workers as free citizens should remain under autocratically made law within industry and commerce as it is that the nation could remain a democracy while certain individuals or groups exercise autocratic powers.

A general conference of representatives of organized labor also met in Washington, on December 13, 1919, and issued a pronouncement against autocracy in industry, in part, as follows:

The urgent problems that sorely trouble our nation and vitally affect us as workers make necessary this special consultation.

The great victories for human freedom must not have

been won in vain. They must serve as the instruments and the inspiration for a greater and nobler freedom for all mankind.

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Labor understands fully that powerful interests today are determined to achieve reaction in industry, if possible. . . . They seek to destroy the democratic impulse of the workers which is bred into their movement by the democracy of the American Republic.

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Creative power lies dormant where autocratic management prevails. No employer has a vested right to the good will of his employees. That must be earned, as between men. It can be earned only when management deals with workers as human beings and not as machines. There can not be a full release of productive energy under an autocratic control of industry. There must be a spirit of cooperation and mutuality between employers and workers.

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We call upon all to join with us in combating the forces of autocracy, industrial and political, and in the sublime task of ridding the world of the power of those who but debase its processes and corrupt its functions.

In all struggles for justice and human freedom, sacrifices have been made. Having made supreme sacrifices to crush militarism and political autocracy in Europe, America's workers will not surrender to political and industrial autocracy at home. In the struggle now before us, we will contest every effort made to fasten tyranny and injustice upon the people of our Republic. We are confident that freedom, justice and the opportunity for a better day and a higher life shall be achieved.

The Changed Attitude of Labor

It is clear from these pronouncements that the war itself as well as the years immediately follow-

ing, brought about a remarkable change on the part of wage-earners as well as of a considerable section of the general public, not only in their conceptions of the fundamental functions of industry, but also in their attitude towards industry, and the relations of the public or the State to capital and labor, and industrial enterprises. The organized labor movement prior to the war was mainly concerned with the effort to secure improved standards of work and increased compensation. It was conducted on the basis of a permanent conflict or organized struggle with employers for shorter hours, higher wages, and better conditions of work for men, women, and children. The war period may be said, however, to have completely changed the relative emphasis in the labor movement and its ideal as to the future. Stress was still placed, of course, upon the need for a greater degree of participation in the output of industry as well as for better working standards, but the main points in labor agitation after the war were protests against autocracy in industry and demands for a greater measure of control by labor in industry.

A New Conception of Industry

A new conception of industry had also been formed by a large part of the general public, especially as evidenced by the declarations of the churches, some of which have been quoted. Prior to the war, industry was considered as being pri-

marily conducted for profit, the theory being that by competition, and by the free play of selfish, economic forces the greatest advantages to the greatest number—labor, capital, and the public—would be accomplished. After the war, the idea gained ground and grew in force and acceptance, that in reality industry was a social institution. In its most conservative form it found expression in the claim that industry should not be conducted in a spirit of relentless economic self-interest for profit, but that while the stimulus of profit should be retained, and the fundamental rights of capital and labor should be protected and conserved, industrial promotion, expansion, and operation should primarily be a social service. The underlying thesis was that the public interest in terms of human and social welfare was predominant at all times.

The Failure of Political Democracy

As the explanation of this post-war movement for industrial democracy, it may be stated that the leading industrial and commercial nations seemed to have arrived at a consensus of opinion, perhaps more or less unconscious and uncrystallized at first, that the political democracy which the world had possessed for approximately a century was a failure unless it was to be supplemented by measures for the realization of industrial democracy. Unless democracy in industry and democratic control of industry could be realized, it was claimed that our

political institutions, which had been developed with so much bloodshed and suffering, would be futile and ineffective. The unrest and turmoil which followed the Armistice—whether in industrial warfare or social agitation—may, therefore, be said to have arisen from the fact that the close of the World War marked the beginning of a new era in democracy, which aimed to destroy all forms of autocracy in both political and industrial life. It became a movement which had for its object the realization of equality of opportunity and the guaranty of the same fundamental principles in industrial life as had in past years been secured politically in the form of personal and civil liberty. It meant, on the one hand, the subordination of our industrial institutions to our democratic institutions and ideals, and, on the other, a participation of the workers in the control of industry in all its aspects.

Post-War Constructive Programs

With the general purpose in mind of bringing our industrial institutions into harmonious relations with the fundamental principles of political democracy, several comprehensive programs were put forward in the years immediately following the war. Some of these were extreme, others liberal, and still others conservative. These programs may be briefly reviewed as symptomatic of the constructive thought and objects of the period.[13]

[13] The discussion of these proposals is freely taken from an article written by the author for the Annals of the American Academy of

Maintenance of the Present Dominance of Capital in Industry

This point of view represented an effort on the part of the old order to get into touch with the new order by yielding only what might be termed the minimum concessions. It is illustrated in the plans for railway organization put forward by the United States Chamber of Commerce in 1919, which included union recognition, joint boards composed equally of employers and employees for the adjustment of differences between the working forces and the management, labor representation on the Boards of Directors of Regional Railway Corporations, and the regulation by the government of railway corporation finance and security issues. This plan may be described as public control of corporate activities in the public interest, joint labor and capital control of industrial conditions and relations under public supervision, and the continuance under these conditions of capital control of industry with minority labor representation in the directing forces. These proposals, as can be readily seen, conceded a very distinct modification of the previous dominance of capital in industry.

The Dominance of Labor

This plan received application, as is well known, in Russia, where it had been carried to extreme

Political and Social Science, September 22, 1922, entitled "The State and Industrial Conflict."

limits. It also was urged in a modified way in Great Britain in the form of guild-socialism, as a method for socializing industry by which industries would be controlled by labor under the general supervision of the State as an administrator. The same arguments are used against it as have been directed against the older capitalist régime—that neither an autocracy of capital nor of labor is democratic or desirable.

Joint Control by Labor and Management

This scheme for socialization of industry practically made the State or government the capitalist by providing for government purchase of industrial enterprises which were then to be operated for the benefit of labor, management, and the public by distinct corporations, the directors of which should be representatives of employees, managers, and the public, as in the case of the well-known Plumb Plan of 1919-1920 for railway and mining nationalization in this country, or such as the operation of industry by a joint-board of directors composed of labor and management, as recommended by the British railway employees while on strike in 1920 or by the Miners' Federation of Great Britain before the Sankey Commission for the consideration of measures for the nationalization of the coal industry. The criticism made against these proposals is that in actual practice there is and will be no real distinction between industrial managers

and other forms of mental or physical labor employed in industry, and that these programs, therefore, practically advocate a socialization of industry and its operation by a labor autocracy.

Municipal Ownership and Operation

This proposal obviously provided for the acquisition and direct operation of industry by the State. It was advocated in connection with street railways and other public utilities in this country, and by the British Labour Party abroad. Theoretically it was acknowledged to be sound, but, practically, impossible in the United States because our experience had shown that it inevitably leads to the improper influence of political power upon the management of public utilities.

The Predominance of the Public

Proposals along this line were put forward in this country in connection with the socialization of public utilities. They provided for the acquisition of properties by the State or government, but their operation by a distinct corporation on the board of directors of which the public would have a majority free from political influence or affiliations and both labor and capital would have minority representation.

All of these plans for socialization or nationalization provided for joint-control of industrial relations

and conditions by representatives of employees and employers.

The General Attitude

There were several general principles underlying and common to all these specific programs. They still remain and are at present the foundations of the long-time movements for industrial democracy. In general, it was and still is held to be axiomatic that the fundamental rights of capital and labor must be guaranteed and protected, but there must be no autocratic control of either or both in industry. It was aimed to bring about this ideal in two ways. In the first place the object was to make the general direction of industry subordinate to the fundamental principles and ideals of democracy. These larger aspects of the new democracy, it was asserted, could be accomplished by political action, or by the proper regulation of the promoting and financing of industrial corporations so that their earnings might become evident, and wage-earners, management, and consumers might enjoy an equitable participation in these earnings through lower prices of commodities or higher wages. It sought also to abolish all monopoly privileges and special legislative favors, as well as arbitrary prices, and to prevent the conduct of industry along lines opposed to human welfare in the highest sense, such as the improper employment of women and children, and other industrial evils. Moreover, it was claimed

that our political Constitution must be supplemented by legislative action in establishing an industrial code, or a bill of industrial rights. This meant the incorporation into our democratic institutions of certain standards and guaranties to labor and capital, under which human and property rights would be protected, and the public interest subserved. It also contemplated the creation, as a supplement to our political democracy, of the necessary changes for the establishment of administrative and judicial agencies in industry to interpret and administer this industrial bill of rights.

Industrial Conflict Succeeds the Demand for Industrial Peace and Democracy

For a time the world after the war thus seemed, as has been pointed out, to be ablaze with the light of industrial democracy. The minds of men were opened and keenly alive to the significance of the old industrial conditions and they were determined that they should not be perpetuated. The after-the-war world was to be a "new world."

Unfortuately, however, after the termination of hostilities in November, 1918, the agreement upon the terms of a treaty of peace, and, finally, when completed, its ratification, were too long delayed. Consideration of constructive proposals for a new era of industrial peace and democracy were also too long postponed. Prices after the Armistice continued rapidly to advance. The pressure of in-

creased living costs upon the wage-earning population caused grave unrest and dissatisfaction. The return of our soldiers from France and the rapid disbanding of those in this country overtaxed the opportunities for work. Unemployment with all its attendant suffering and unrest quickly developed.

Finally, revelations were published as to war-time and post-war profiteering. The climax was reached in a so-called "buyers' strike" arising either from a decline in purchasing power of wages and income or as a protest against extortionate prices which then prevailed, and as a consequence the demand for goods was abruptly curtailed. Retail and wholesale merchants were overstocked with goods which they could not sell and orders already given for future supplies were cancelled. Beginning in the summer of 1920, industrial establishments were forced to curtail production or entirely shut down. By the Spring of 1921 industrial stagnation had supplanted the previous period of buoyancy and overexpansion. Hundreds of thousands of industrial workers were thrown out of work, farmers were threatened with bankruptcy by the sudden collapse of farm prices, and commercial, industrial, and all forms of business enterprises were ruined or suffered serious losses through the curtailment of bank credits, and the lack of markets for commodities. Stock market values collapsed. The country as a whole was plunged into a period of stagnation, liquidation, and reconstruction which extended almost over two years.

Under these conditions the visions of a new world of peace, cooperation, and industrial democracy gradually disappeared. Industrial unrest and conflict rapidly developed in a more intense and fundamental form than had ever occurred before the war. During the period of increasing prices labor organizations were aggressive in demanding wage increases. Employers were no less insistent in their claim that to raise wages to offset higher prices constituted a "vicious circle" which again raised the cost of living. After the financial and industrial breakdown of 1920, employers also declared that the reduction of war-time wages and the elimination of certain conditions of employment were essential preliminaries to a rehabilitation of business and industry,—that workers should produce more at a smaller cost. Wage-earners, on the other hand, claimed that this was an indefensible conspiracy of war-time and post-war profiteers to "deflate the democracy" secured by labor during the war and aimed at the perpetuation of industrial autocracy and profiteering. As the outcome of these conditions there were general strikes during the latter part of 1919, and during 1920-21, involving hundreds of thousands of workers in iron and steel mills, on the railroads, in the bituminous and anthracite coal mines, and many more in the secondary industries. The culmination of this struggle came in the railway shopmen's strike of the summer of 1922 which for a time seriously crippled the country's transportation facilities.

As the result of these developments general and special constructive principles and proposals for democratizing industry, although tenaciously advocated for a time, were finally overshadowed by the widespread industrial turmoil and strife. The industrial democracy, which immediately after the Armistice seemed so near, must, it was reluctantly realized, as in the case of its precursor, political democracy, be gradually developed by experience in the application of fundamental principles which had been generally accepted but up to that time only partly tested.

III

THE FUNDAMENTALS OF INDUSTRIAL DEMOCRACY

Although the world-wide crusade for industrial democracy was demoralized by the economic dislocations and the industrial strife of the immediate post-war years, the movement itself was not destroyed. It ceased as an intensive effort, seeking immediate and sweeping changes in industrial and social standards and ideals, but, on the other hand, steadily continued as a great educational and spiritual force, changing the ideas and attitude of those within and without industry. Its permanent intangible results have been definite and generally accepted conceptions of what democracy in industry should be, the establishment and recognition of the fundamental principles and standards which are essential to democracy in industry, and the obligations upon employers and employees, or, in other words, the duties of industrial citizenship, as it were, which arise from the application of these democratic principles to industry. Concretely, also, the movement, as will be shown later, has been attended by efforts, within industry itself, to apply in a practical way the principles and standards of a new, democratic industrial order.

Before entering into a consideration of any plans,

however, instituted during recent years as practical attempts to realize democracy in industry, the consensus of opinion as to the accepted fundamental principles of industrial democracy must be briefly reviewed together with the general conceptions of industrial democracy which have received widespread support during recent years. They will afford authoritative standards for accepting or rejecting, in whole or in part, as a basis for constructive action, the various concrete plans which have already been developed in industrial establishments in this country and abroad.

The character of the advocacy and the extent of support of certain principles for establishing industrial democracy have been discussed in considerable detail in the preceding chapter. Some of the underlying principles enumerated have already been sanctioned by legislative and judicial action. These chiefly pertain to certain physical, civic and human considerations affecting industrial workers, such as the length of the workday, employment of women and children in mills, factories and mercantile establishments, as well as regulations for one day's rest in seven and similar standards. Crystallized public opinion, together with specific practices and customs in leading industries, also constitute sanctions for other principles practically of as great significance as those which have formally received legislative or judicial approval. In general it may be stated, therefore, that there are certain well-defined principles and standards which have been accepted

by governmental sanction or by enlightened public opinion as the real essentials of industrial democracy. In proportion to the extent to which any concrete plan, either proposed or actually in operation, falls short of these principles, it may be said to have been weighed in the balance and found lacking so far as democracy in industry is concerned.

Principles are, of course, fundamental, while machinery is only secondary, but, as in the case of political institutions, representative or democratic government in industry must also be founded on a written instrument or constitution, setting forth the form, the method of procedure, the regulating principles, and certain rights or safeguards against the form of government, reserved to both employers and employees.

Confusion as to Concept and Definition Has Disappeared

There has been considerable confusion in past years as to conceptions and definitions of industrial democracy, due to the fact that the term has been used more or less indiscriminately to describe the significance of various movements for the amelioration of industrial conditions, or proposed changes in control of industry, ranging all the way from a newly established system of employee representation to the alleged objects of Communism or the "dictatorship of the proletariat." As already seen, however, from the post-war declarations of the

churches and other private organizations and public agencies, as well as from the review of the specific proposals put forward, the conception of industrial democracy during recent years has been narrowed down to a sound and conservative, but also to a clear-cut, definite analogy and supplement to political democracy. Industrial democracy now means self-government and equality of opportunity in industrial as in political life. A new order of industry is to be evolved wherein all shall be equal and all shall be enfranchised and have their rights. A. B. Wolfe pithily expresses the generally accepted conception when he says, "This is the essence of industrial democracy—a machinery and a spirit in which all concerned shall have effective voice in matters which concern all," [1] or, in the words of G. H. D. Cole, it represents a "position in which every workman can feel he has a real share in controlling the conditions of his life and work." [2] The nearest analogy to political democracy is given by the definition of W. P. Hapgood, President of the Columbia Conserve Company, who declares, "In my judgment, industry, like government, cannot remain half slave and half free. We must achieve in industry Lincoln's definition of democracy: 'Of the workers, by the workers, and for the workers.' What does

[1] A. B. Wolfe. "Works Committees and Joint Industrial Councils." A Report. U. S. Shipping Board, Emergency Fleet Corporation, Industrial Relations Division, Phila., 1919. p. 31.

[2] G. H. D. Cole. "Reviving the Guild Idea." In Daniel Bloomfield, "Modern Industrial Movements." H. W. Wilson Co., N. Y., 1919, p. 155.

this mean? If I were to translate it into a platform, I would state it as follows: (1) full-time employment; (2) full protection against sickness, accident, and old age; (3) minimum wage; (4) maximum wage; (5) profit-sharing; (6) abolition of absentee control; (7) workers' control; (8) workers' ownership." The movement, according to J. Laurence Laughlin, "in reality . . . represents the widely spread desire for a higher standard of living and the opportunity for more life—educational, spiritual, and political." [3] This trend towards industrial democracy, as E. P. Cheyney states, "has been going on for a long period, . . . it is not simply a monetary claim by the labor class, but . . . a self-assertion of the working classes and their insistence on having a larger amount to say in everything connected with industrial life. Such a continuous movement as this, so analogous to the movement for political democracy, so wide in its extent, cannot be expected to stop short of some great epoch-making change." [4]

The Conception of Organized Labor

From citations already discussed, the conception of industrial democracy held by the American labor movement has been made quite clear. Succinctly, it was expressed by the late Samuel Gompers,

[3] J. Laurence Laughlin. "Industrial America." Chas. Scribner's Sons, N. Y., 1906, p. 94.

[4] E. P. Cheyney. "The Trend Toward Industrial Democracy." Annals of the American Academy of Political and Social Science. July, 1920, p. 9.

President of the American Federation of Labor, as follows: [5]

The old political democracy is the father of this new industrial democracy. The trade union movement is the potential new industrial democracy. Trade unions develop the reason, the conscience, and the civic sense of the wage-earners. . . . By combining into trade unions, in acting collectively, deciding questions by debate and majority vote, making sacrifices of opinion and individual superiority for the common good of all, the workers receive an education and training which eminently fit them to take their rightful place in industry and in organized society. Indeed, it is only by this education and training that democracies can live and grow and develop.

The movement by labor to attain industrial democracy in Great Britain is more political in method than among organized labor in the United States. Mr. Arthur Henderson [6] has described it as follows:

The Labour Party insists on democracy in industry as well as in government. It demands the progressive elimination from the control of industry of the private capitalist, individual, or joint-stock; and the setting free of all who work, whether by hand or by brain, for the service of the community and of the community only— . . . What the Labour Party looks to is a genuinely scientific reorganization of the nation's industry, no longer deflected by individual profiteering, on the basis of the Common Ownership of the means of Production; the equitable sharing of the proceeds

[5] Samuel Gompers. "Labor and the Employer." E. P. Dutton and Company, N. Y., 1920, p. 305.

[6] Arthur Henderson. "The Aims of Labour." Headley Bros., London, 1918, p. 99. (From a draft report on the General Policy of the Labour Party on "Reconstruction" prepared by a Sub-Committee of the Executive.)

among all who participate in any capacity and only among these, and the adoption, in particular services and occupations, of those systems and methods of administration and control that may be found, in practice, best to promote, not profiteering, but the public interest.

A Prominent Merchant's View of Industrial Democracy

One of the most enlightened and progressive discussions of industrial democracy is to be found in an address on May 16, 1923, before the Economic Club of Boston, by Mr. Edward A. Filene, President of William Filene's Sons Company of Boston. The meeting of the Economic Club of Boston was held to discuss an exhaustive report on Readjustment in Industrial Relations prepared under the auspices of the League. Mr. Filene's statement is valuable because he is one of the country's most successful business men. His discussion of industrial democracy, in part, was as follows: [7]

By industrial democracy I mean that form of industrial organization in which the employee has not only an adequate voice in the management and determination and control of work conditions, and an adequate stake in the results of work, but also, in addition, some guaranty that the management of the business shall be responsible and largely dependent for its rewards on its efficiency. It is no use to give the employees a part in the control if inefficient management curtails profits so that they do not benefit.

By an "adequate" voice, I mean the greatest power it is

[7] The *Consensus*—Published by The National Economic League of Boston, July, 1923, pp. 65-71.

possible to grant, consistent with the continuing prosperity of the business.

The moment industrial democracy fails to sustain and increase production and to produce adequate wages or adequate profits, it ceases to be valuable to the employees, no less than it ceases to be valuable to the employers.

An adequate voice in industry must also mean different things in different stages in different industries. Its extent depends upon the ability, training and sense of responsibility of the employees and of the executives, as well as upon the practical results secured in terms of production, wages, and profits. It must also depend somewhat upon many factors outside of the industry.

The Definition of a Large Manufacturer

George F. Johnson, of the Endicott Johnson Corporation, Endicott, New York, one of the largest shoe and leather manufacturing plants of the country, also gave expression to a very significant and comprehensive definition of industrial democracy, in the discussion of the report of the National Economic League before the Boston Economic Club. It was, as follows: [8]

As I understand it, an "industrial democracy" is an industry operated for the benefit of the community, including the workers who produce, and the customers who consume the products. It is operated in a democratic fashion, "to see how much can be made of it, and not out of it." It gives every boy and girl, man and woman, an equal chance. It seeks to pay the highest wages, and to produce under the best possible conditions. It recognizes the "human element" as of the greater importance. It counts its profits *greatest,*

[8] The *Consensus*—Published by The National Economic League of Boston, July, 1923, p. 33.

which profits the *largest* number. This, briefly, is what Endicott Johnson are seeking to do.

Attitude of a Leading Engineer

A leading engineer, Dr. Morris Llewellyn Cooke, who was formerly Director of Public Works of Philadelphia, in 1919 also saw the character, the development, and the inevitableness of industrial democracy in terms similar to Mr. Filene's, but with the addition of the engineer's point of view as to co-operative efficiency and productiveness. In a series of articles in the Philadelphia *Public Ledger* in April, 1919, he wrote, in part, as follows: [9]

Our fathers were not long in this new land before they discovered that they could not be happy and could not execute a national purpose except under a democratic form of government. The start was made through a revolution only because our former leaders opposed us in making the changes. We have been developing this idea of democracy in government ever since, and some real progress has been made. Our political system, however, represents rather an aspiration toward democracy than the achievement of any final goal, and it has taken 150 years to arrive where we are.

It has latterly been borne in on us that a good deal of the democratic method which we have found to our liking in government might easily and with obvious advantage be introduced into industry. Our experience during the war has tended to confirm and strengthen this conviction. But what has been made more evident is that if we are to bring

[9] The general title of these articles was, "An All-American Basis for Industry"—they appeared in the issues of the *Public Ledger* for April 14-17, 1919, inclusive.

about the necessary improvement or even maintain our industrial supremacy we must not delay installing some system of industrial democracy in every factory and workshop in the land.

As we are going to avoid the revolution which attended the achievement of our political democracy we must meet this situation, as we have every other brought on by the war, in a spirit of broad co-operation and an open-minded willingness to plan out something not only new but sufficiently big to satisfy every legitimate end.

* * * * * * *

If as a people we are to prevail and prosper; if as a world we are to have an ordered future, then the arts of production must be so practiced that autocracy, whether of capital or of labor, must give way to democratic counsels. This is the way of peace and of plenty. And what is more vital, it is the way of service and morality. Whether you are an individual, a shop or an industry, get something going today on which the agreement of all your associates is secured in democratic fashion.

It will not stop there, for true democracy is not either a set of principles or a set of mechanisms. It is rather an attitude of mind, a "tendency and a development." It is the abundant life. It is not Adam Smith and the economic law that drives us to these conclusions. It is by Christ and the moral law that we are being led into a better industrial day.

Industrial Democracy and Efficiency

The possible efficiency of industrial democracy, and what it really means in relation to management and control was cogently stated at a Working Class Associations Conference at Oxford, England, as early as 1916. Because of its light on this phase of

industrial democracy which is often doubted, it is worthy of restatement, in part, as follows: [10]

Our policy must be not to make output more mechanically perfect by turning the workman himself into a mere machine, but to make our organization scientific in the widest sense by the voluntary and harmonious cooperation of all the human factors concerned. It is along this road and no other that we shall reach the industrial democracy of the future, toward which the English industrial idealists of the nineteenth century—Ruskin, William Morris and John Stuart Mill—were bold enough to point the way. Industrial democracy is a big word. Let us try to bring it down from the clouds. What sort of organization does it mean in actual practice? It does not mean handing over the control of matters requiring expert knowledge to a mass of the people who are not equipped with that knowledge. Democracy can be just as successful as any other form of government in employing experts. Nor does democratic control, in the present stage at any rate, involve a demand for control over what may be called the commercial side of management, the buying of the raw material, the selling of the finished article, and all the exercise of trained judgment and experience that are brought to bear by business men on these questions.

Mr. Zimmern then cited the cooperative movement to show that work people had the ability to manage business, and predicted that trade-unions may in time go into business. This prediction has already been partially realized in the labor banking movement and other cooperative undertakings in this country.

[10] Zimmern, Alfred Eckhard. "The Control of Industry after the War," pp. 61-77. Conference of Working-Class Associations, Oxford, 1916. London, 1916.

Dr. Eliot's Conception of Democracy in Industry

Perhaps the most profound and acceptable statement of the general principles upon which industrial democracy should be established in industry was made in 1919 by the lamented President Emeritus of Harvard University, Dr. Charles W. Eliot. During the early part of that year, the New Jersey State Chamber of Commerce was conducting a series of conferences on "democracy in industry," and Dr. Eliot, at its request, prepared the following pregnant statement as a basis for discussion: [11]

On the Part of the Employers

(1) Abandonment of every form of despotic or autocratic government in factories, mines, transportation services, and all other industries which deal with the necessaries of modern life.

(2) Universal adoption of cooperative management and discipline throughout the work or plant, the employer and the workman having equal representation in managing committees.

(3) Adoption by all corporations, partnerships and individual owners of every means of promoting the health and vigor of employees and their families, including the provision of free medical and nursing service, good housing and all feasible protection against accident, sickness, alcoholism and vice, not as a matter of charity, but as a sound business method. Prolonged education for adults who are already

[11] Reprinted from *New Jersey*, published by New Jersey State Chamber of Commerce, March, 1919, Vol. VI, No. 6, pp. 75-76, article entitled "A Basis of Discussion," by Charles W. Eliot, President Emeritus, Harvard University.

earning their livelihood should be included among these means.

(4) Careful provision in all large services—so large as to preclude intimate relations between the employer and the employed—of the means of dealing promptly and justly with complaints of employees, whether individuals or groups. In complaint cases foremen may be witnesses but never judges.

(5) Universal use in large services of well-trained employment managers for dealing with the engagement, distribution, shifting, promotion and dismissal of employees.

(6) General adoption of a genuine partnership system between the capital and the labor engaged in any given works or plant, whereby the returns to capital and labor alike after the wages are paid shall vary with the profits of the establishment, the percentage of the profits going to payroll being always much larger than that going to shareholders or owners and payroll never to be called on to make good losses. As in ordinary partnerships the annual or semi-annual accounts should be open to the inspection of all persons directly interested. As a means of securing to employees full knowledge of the partnership accounts they should always be represented in the directorate.

(7) Constant effort on the part of managers to diminish monotony and increase variety in the occupation, from day to day and year to year, of every intelligent and ambitious employee. . . .

(8) Universal acceptance of collective bargaining through elected representatives of each side.

On the Part of Employees

(1) Abandonment of the doctrine of limited output; because this doctrine demoralizes every person who puts it into practice by never doing his best.

(2) Abandonment of the idea that it is desirable for work-

ers of any sort to work as few hours in a day as possible and without zeal or interest during those few.

(3) Absolute rejection of the notion that leisure rather than steady work should be the main object of life. . . .

* * * * * * *

(5) Abandonment of two conceptions which underlie the use of violence or force for winning the victory in contests between employers and employed. The first is the conception that capital is the natural enemy of labor, and the second, the conception that unorganized laborers are traitors to their class. These conceptions belong to an industrial era which is really past. They are miserable survivals of much earlier times when hours of labor in factory industries and in farming were unwholesomely long, wages deplorably low, and the mass of the people had little control over legislation or the manners and customs of the ruling classes.

(6) Abandonment of all violence toward property or persons in the prosecution of industrial disputes. It is a consideration strongly in favor of this abandonment that a strike covering the whole territory of the nation or a large part thereof has lately become possible, because of recent improvements in means of communication. Such a strike, or even the threat of it, is capable of inflicting much suffering on millions of non-combatants.

By Both Parties to the Industrial Strife

(1) Willing adoption by both parties of the methods of conciliation, arbitration, and ultimate decision by a National Government Board as sufficient means of bringing about just and progressive settlements of all disputes between capital and labor. . . .

(2) Recognition by both parties that a new and formidable danger threatens civilization, and that all good citizens of the Republic should unite to suppress anarchy and violent socialism and to secure to all sorts and conditions of men "life, liberty and the pursuit of happiness."

(3) General acceptance of the view that American liberties are to be preserved just as they have been won. They have been slowly achieved by generations of sturdy, hard-working people who valued personal independence, industry, thrift, truthfulness in thought and act, respect for law, family life, and home, and were always ready to fight in defense of these things.

(4) Acceptance of the truth that the democracy which is to be made safe in the world does not mean equality of possessions or powers, or a dead level of homogeneous and monotonous society, but on the contrary the free cultivation of infinitely diversified human gifts and capacities, and liberty for each individual to do *his best* for the common good.

The soundness of Dr. Eliot's principles and conceptions cannot be questioned. They will appeal to all those who love humanity and are looking towards a more democratic régime in industry for realizing its best aspirations. Constructive programs may be judged only in general terms, however, by Dr. Eliot's ideas. In passing judgment upon practical plans, it is necessary to go a step farther and set forth specific principles and forms which should prevail in representative industrial government.

Collective Bargaining

One of the fundamental rights essential to genuine democracy in industry is the right of capital and labor to organize and bargain or deal with each other collectively. In the case of employers this right has been fully recognized and generally ap-

plied. By the gathering together of units of capital into large corporate firms thousands of stockholders or owners of industry have been welded together into a single unit in the form of one legal person. Stockholders do not act individually in dealing with employees or in other corporate matters, but as one organic whole through duly elected representatives. Moreover, different corporations engaged in the same branches of industry, as all of the railroads, mines, or steel mills in a certain territory or in the country as a whole, are free to join together into associations to formulate labor policies, to bargain with their employees, or for any other purposes with the exception of imposing improper restraints upon distribution and prices of their products.

The same freedom in organization and collective bargaining has not been extended to labor. Some large employers, such as the United States Steel Corporation, refuse to deal with their wage-earners except as individuals. Others, while recognizing the right of labor to organize for their own economic interests, and to bargain collectively through their own representatives, seek to impose certain restrictions upon the exercise of this fundamental right. Real industrial democracy, however, cannot admit qualifications upon the right to organize and bargain collectively which would unwarrantedly interfere with the free play of industrial action.

The generally accepted rights and obligations of

labor, so far as organization and collective bargaining are concerned, may be briefly stated as follows:

(1) The right of employees to form and conduct their own organizations, independently of and with no interference from employers or managers.

(2) To bargain collectively with employers through representatives of their own choosing.

(3) To have these representatives function independently in behalf of a real and definite organization.

(4) To be guaranteed individual protection against discrimination because of membership in labor unions or other organizations.

(5) The right to have management or employers recognize existing standard labor organizations, or to permit employees to form and act, if they so desire, through labor unions, coextensive with the organization of the various industries.

(6) The establishment of joint machinery, equally representative of employers and employees, for the adjustment of grievances and to administer discipline under regular working agreements.

(7) The establishment of joint machinery, equally representative of employers and employees, for the consideration of changes in standards of work and compensation.

(8) The establishment of disinterested arbitration machinery for the final ascertainment of facts, and the interpretation of principles, relative to

which the representatives of employers and employees have been unable to reach a decision.

Employers who have been accustomed to dealing with, or who are friendly in their attitude towards labor unions have no objection to any of the above-enumerated rights and obligations. A large group, however, who are opposed to unions in general, recognize the right of their own employees to organize and bargain collectively, but would oppose their affiliation with the labor unions of wage-earners in the plants of other firms in the same industry. This class of employers also consider secret ballots to nominate and elect employees' representatives sufficient, and do not, in many cases, tolerate any organizations of employees except in name only. Instead of a definite, functioning organization, a name is merely used to describe the occupation or group for collective bargaining purposes. Still other employers discriminate as between unions, according to their policies, declaring, for instance, that they will not deal with unions which restrict output, believe in the sympathetic strike, or the closed union shop. Other types of employers, who oppose labor unions, have in operation systems of collective bargaining such as shop committees or industrial councils, but refuse to submit differences to arbitration, and reserve to themselves the right of ultimate decision in controversies which may develop. In general, it may be said that a careful analysis shows at least nine out of

ten of the post-war plans for employee representation or alleged democracy in industry, although providing against discrimination because of labor union membership, have been established independently of labor organizations. It is for this reason that the movement for employee representation has come to be looked upon in many quarters as an anti-union effort, or, at least, a movement of which one of the objects is to check the growth of labor organizations.

Employee Representation Not a New Movement

In this connection it should be borne in mind that in certain historical aspects, employee representation is really not a new movement. A tendency similar to that which has been active in this country since the war was very strong in Europe thirty to forty years ago. At that time shop committees and employee representation in general were used by European employers in an effort to check or destroy the rapid growth of unionism. After the Armistice, the situation was reversed. European wage-earners attempted by committees and industrial councils to secure workers' control of industries.[12] For a time it seemed, especially in Germany, that this revolutionary movement might be successful. In Great Britain the reaction assumed a more con-

[12] See article entitled "Shop Committees: Substitutes for or Supplement to Trades Unions," Paul R. Douglas—Journal of Political Economy, Feb., 1921.

servative form: (1) the agitation for a form of guild-socialism in which management and employees would control and operate industry under specified state regulations, and (2) the so-called Whitley Committee recommendations, providing for the establishment of self-government in industry through the creation in each industry of national joint-councils, district or regional councils, and shop committees in individual plants.[13] The basis of employee representation, both in Continental Europe and in Great Britain, was the labor union.

The Attitude of Organized Labor

In the United States, after the Armistice, there was at first no antagonism between organized labor and the shop committee movement. The unions had become accustomed to the systems of collective bargaining introduced in non-union establishments by war-time agencies, as, notably, the National War Labor Board, and the Shipbuilding Labor Adjustment Board. The general impression was that such schemes of employee representation were in reality a first step towards unionization. In reference to the Bethlehem Shop Committee introduced by the National War Labor Board in 1918, President

[13] A report by A. B. Wolfe to the Industrial Relations Division of the U. S. Shipping Board Emergency Fleet Corporation in April, 1919, entitled "Works Committees and Joint Industrial Councils" contains in Chapter III and Appendix I a very complete account of the so-called Whitley plan and the extent of its acceptance in Great Britain: also a reprint of the Whitley Report.

Industrial Reports, Nos. 1 and 2, Works Committees—Ministry of Labour, London.

Gompers said, "Through assistance from the outside, the Bethlehem steel workers may be able to make their shop committee the nucleus of an industrial constitution that will result in just as thorough an organization of that side of production in this plant which concerns employees as has existed on the side of the management. A shop committee for the Bethlehem Steel workers may mean the beginning of industrial freedom. The same benefits may be established for the workers in every place where a shop committee is inaugurated; nor is it necessary to wait for an award from the War Labor Board. Shop committees can be established through initiative of the workers themselves." [14]

The American Federation of Labor also at first actually favored Whitley Councils in industry. It was assumed that their inauguration in America would be on the same basis as in Great Britain and Europe, where they were an integral part of the movement of organized labor, and supplementary to the usual activities of the unions. The Executive Council of the Federation also expressed itself as favoring shop committees and cooperative management in industry. In its report to the St. Paul Convention in October, 1918, the Council said: [15]

> The Executive Council believes that in all large permanent shops a regular arrangement should be provided whereby: *First,* a committee of the workers would regularly meet

[14] Carroll E. French, "Shop Committees in the United States," p. 78.
[15] American Federation of Labor, Thirty-eighth Annual Report, 1918, p. 85.

with the shop management to confer over matters of production; and whereby:

Second, such committee could carry, beyond the foreman and the superintendent, to the general manager or to the president, any important grievance which the workers may have with reference to wages, hours, and conditions.

It is fundamental for efficiency in production that the essentials of team work be understood and followed by all. There must be opportunity for intercourse and exchange of viewpoints between workers and managers.

The constructive demands outlined above are predicated upon the basic principles of the right and opportunity of workers to organize and make collective agreements. There is no other way to bring about cooperation for production except by organization of workers. Organization is the orderly system for dealing with questions which concern labor in order that decisions and adjustments may be reached that further the best interests of all concerned. Employers and workers must talk over matters of mutual interest and reach understandings. In present large scale industry this can be done only by use of the representative system of what is commonly called collective bargaining, which is the foundation of all effective, just labor administration.

Representative employers, on the other hand, through the United States Chamber of Commerce, were at the same time advocating works committees, cooperative management between capital and labor, and following the English experience under the Whitley plan, national joint industrial adjustment boards, and national joint industrial councils in each industry. The Committee on Industrial Relations of this representative body of opinion among leaders of industry and commerce, on December 2, 1918,

less than a month after the Armistice, expressed itself as follows: [16]

The adjustment of industrial relations, not by conflict, but by agencies established for the purpose in which the workers' interest has equal influence with that of the employer is your Committee's suggestion to meet the situation. Where employer and employees are able by joint action to create an effective agency for the regulation of their industry on the basis of right principles, the necessity for federal or state control or interference will be minimized.

The process of organizing adjustment boards for the standardization of wages, hours, and conditions of employment, for the interpretation and application of such standards, and for their enforcement, has been going forward. Your committee approves this principle and urges the various industries to hasten the organization of National Adjustment Boards in each industry following the example of the metals, building and needle trades, to meet the difficult problems of reconstruction.

Industrial managers acknowledge that employment conditions are frequently not satisfactory, but they show that the pressure of competitive conditions may make it impossible for the single employer or individual enterprise to improve upon them. The plan of organizing adjustment boards provides a remedy for this difficulty by assisting each industry or trade to establish standards for itself, protected against the demoralization of these standards by competition. The policy of determining industrial relations (wages, hours, and conditions of employment) not only by a process of measuring the economic strength of the worker against management, but by a process in which reason, public policy, human needs, shall predominate over might, has one great advantage —it disposes of at least three-fourths of the causes of friction

[16] Wolfe, "Works Committees and Joint Industrial Councils," pp. 113-114.

and strife between employer and his employees. Private enterprise and initiative, exercised constructively, will be accelerated rather than discouraged by thus protecting standards of industrial relations to fit the accepted ideas of economic justice.

Power won from a reluctant employer by labor, organized economically or politically, is likely to be used more unscrupulously and with less constructive wisdom or regard for public welfare than is a participation in management granted by employers in recognition of a moral right of the worker to have it, in so far as he shows himself competent to exercise it without abuse and wisely.

The foregoing statements, however, represented the brief era of confidence and good-feeling which followed the war. It was short-lived. The alleged "open-shop movement" was soon started among reactionary American employers. Its ostensible purpose was to establish equal conditions for both union and non-union employer without discrimination, but its real object was soon found to be an attack upon unionism and an attempt to break down the strength with which organized labor emerged from the war. The attempt of the radical wing of the labor movement to establish industrial unionism in the steel industry during the strike of 1919 also had the effect of turning the American Federation of Labor against post-war innovations. This was intensified by the experience with the so-called Rockefeller plan in the mines of the Colorado Fuel and Iron Company during the soft coal strike of 1919-1920. Organized labor finally took the position that the current agitation for plans of employee representation was in

reality an effort to offset or break down the union movement. It was claimed that proposals for employee representation and similar measures did not emanate from the workers but were instituted on the initiative of employers for the purpose of preventing the organization of their plants by regular unions. As a consequence, employee representation schemes soon came to be stigmatized in organized labor circles as "company unions," and a menace to real unionism.

The trade-union attitude of distrust and suspicion was further inflamed by the inability of representatives of employers and employees to agree upon a definition of collective bargaining during the deliberations of the National Industrial Conference in Washington during October, 1919. The public and labor delegates supported the principle of the "right of employees to bargain collectively through representatives of their own choosing." The refusal of employer representatives to agree to this definition of collective bargaining was interpreted by the labor delegation as a denial of the union as the basis of collective bargaining, and it withdrew from the Conference.[17] The pronouncement on collective bargaining of the second National Industrial Conference assembled in Washington by President Wilson a few months later was also, in some respects, unsatisfactory to the organized labor movement, because of the emphasis placed upon shop committees, or local plant organizations.

[17] See pp. 22-26.

As a result of these experiences, together with the open conflicts which continued to develop between employers and labor organizations, labor officials officially denounced the employee representation movement. Briefly stated, the basis of their opposition was as follows:

(1) Shop committees and works councils had been and were being organized to prevent the extension of unionism.

(2) They ignore industry as a whole and are confined to one plant or to a series of plants operated by one firm or corporation. Hence the bargaining power of employees is weakened by their inability to affiliate themselves with fellow-workers in other plants in the same industry.

(3) Such schemes fail to give true representation to the workers as they can only represent themselves; they cannot secure others who are more skilled, expert or experienced to represent them.

(4) In this country employee representation plans have been initiated and influenced by employers as contrasted with labor unions which are organized by workers and controlled by them.

(5) Unions exclude representatives of management from meetings while employee representation plans do not.

(6) American shop committees or employee representation plans are not analogous to the Whitley plan in England, as American plans are restricted to the plants of one employer while Whitley com-

mittees and councils include all the plants in an industry; moreover, the Whitley plan assumes existence of and is based upon labor unions while American plans do not.

Organized labor, therefore, declared it was forced by the action of those behind the movement to a position of positive and unreserved hostility to shop committees and plans of employee representation in this country. It was freely acknowledged that both labor unions and employee representation plans were similar in being formed for collective bargaining and cooperative arrangements with employers, but that the real object of employee representation plans had been prostituted by employers hostile to labor organizations.

Employee Representation Plans and Labor Unions Should Be Coordinated

However successful schemes of employee representation and cooperation may be temporarily, they cannot permanently endure, unless the confidence of the employees, from year to year, in management remains. Presumably, as they primarily depend upon personalities, they cannot continue constant. Arrangements should, therefore, be taken from the personal category and put on the basis of fundamental principles of collective bargaining. The labor union is needed not only for cooperative purposes but also as a guarantee to the worker of good

faith and against encroachment by the employer. Membership of employees in labor unions is essential to proper industrial citizenship.

The ordinary scheme of employee representation does not give a full measure of democracy and economic strength to employees because (a) it imposes a *limitation* upon the selection of delegates as they must be taken exclusively from employees, and (b) impairs the economic strength of employees because, in most cases, there is no general independent organization to which employees belong, to which dues are paid or in connection with which meetings are held outside the industrial plant. If, as in a few cases, there is a definite organization, it, as a rule, covers only a single plant and not the industry.

On the other hand, shop committees, industrial councils and cooperative schemes will go along most effectively if placed on a trade union basis. Otherwise unions will continue hostile, will oppose plans of employee representation, and attempt to destroy or control, with the result that a true spirit of cooperation will be lost. With a strong independent organization of their own, employees will also feel more independent, will assume a greater degree of sympathy and cooperation with management, and will be more active and useful in increasing the productive efficiency of the establishment. Union leadership will be converted from a militant to a cooperative type, its spirit will be changed, stronger faith in management will develop, and industrial peace

and maximum production will be attained to a larger degree.

There can be no extension of real democracy or independence for the industrial worker without the recognition of his own independent organization for collective bargaining established coextensively with the industry in which he is employed, as the present-day labor union is organized. The principle involved has been nowhere better stated than by Mr. Walter Lippmann.[18] He states:

> Without unions industrial democracy is unthinkable. Without democracy in industry, that is where it counts most, there is no such thing as democracy in America. For only through the union can the wage-earner participate in the control of industry, and only through the union can he obtain the discipline needed for self-government. Those who fight the union may think they are fighting its obvious errors, but what they are really fighting against is just this encroachment of democracy upon business. . . . You can't expect civic virtue from a disfranchised class, nor industrial virtue from the industrially disfranchised. . . . It is the development of a citizenship in industry that the labor movement has before it. It will have to work out the intricate problems of popular control in relation to technical administration. . . . There must be added to it an understanding of what may be called the political problem of labor, the questions that arise in its effort at self-government, in its adjustments to the world that surrounds the industry. There is nothing simple and perfectly reassuring ahead. With wage-earners about one-tenth organized, unionism has a gigantic problem before it. And there seems to be no limit to the methods by which organization is thwarted. . . . The unions

[18] "Drift and Mastery—An Attempt to Diagnose the Current Unrest," Walter Lippmann, New York, 1914, pp. 81, 93, 97.

are struggling to give the wage-earners representation, and that is why the hopes of democracy are bound up with the labor movement. Bound up, not with its words and dogmas, but with the purpose which animates it. Labor needs criticism, needs inventive thought, needs advice and help. But no one can give any of these things who has not grasped with full sympathy that impulse for industrial democracy which is the keynote of the movement. . . . For each industry you must discover a satisfactory unit, and you must encourage these units to co-operate so that every industry shall be conducted with a minimum of friction. . . . You have to find ways of making the worker an integral part of his industry. That means allowing him to develop his unions, and supplying the unions with every incentive by which they can increase their responsibility. . . . You have to encourage the long process of self-education in democracy through which unions can develop representative government and adequate leadership.

It cannot be denied that shop committees and more extensive systems of employee representation are of fundamental importance, but they should be coordinated with regular unions. Not only industrial democracy and the cooperative spirit in industry will be thus better realized, but the greatest measure of efficiency and productiveness in industry attained.

The functions to which shop committees are best adapted and wherein they constitute an invaluable supplement to the usual procedure of trade-unions may be briefly summarized as follows: [19]

[19] The best comparative study of the relative merits and defects of shop committees and labor organizations is to be found in the article by Professor Paul H. Douglas already referred to, entitled "Shop

(1) To apply and interpret union agreements as to wages and working conditions which have been negotiated and made the basis of procedure between employers and employees. This renders unnecessary in local divisions or units of industrial undertakings union-paid agents or business representatives.

(2) To enable unorganized employees and management to meet on common ground, to understand each other and each other's problems.

(3) To enlist the direct interest of the workers in production and cooperative effort.

(4) To enable the worker to understand the problems of the industry in which he is employed.

(5) To enable the organization of the employees to be put on a more effective basis, or to make the workshop or the local unit the basic local of employee organization rather than different crafts. All crafts, so far as production and procedure are concerned, may be thus united on a local or workshop basis for common purposes and objects. This does not necessarily mean the abolition of craft unions, but rather the integration of crafts so far as the workshop, the industrial establishment or the mine are concerned.

Committees, Substitute for, or Supplement to, Trades Unions,"—Journal of Political Economy, February, 1921, pp. 103-106.

This subject was also discussed in a very comprehensive and forcible way in the Report of The President's Industrial Conference—Washington. Government Printing Office, 1920.

See also "An Introduction to the Study of Labor Problems," by Gordon S. Watkins, Ph.D.—Crowell Company, New York, 1922, pp. 450-452.

Shop committees or systems of employee representation have, therefore, an invaluable contribution to make to ordinary labor unionism. Moreover, labor organizations as already stated are essential to real democracy in industry and to proper functioning of shop committees and all types of employee representation plans. Cooperative relations between employers and employees can never be realized permanently by shop committees or systems of employee representation unless the labor union is adopted as the fundamental basis of procedure.

In Great Britain prior to the establishment of the Whitley Committee recommendations as well as subsequent thereto, shop committees, work committees, and industrial councils have functioned successfully on a labor union basis. The labor organization, it will be recalled, was recommended by the Whitley Committee as an indispensable part of the system of shop committees, and district and national joint councils. In this country the local committees or units of some of our most successful labor organizations, such as the United Mine Workers of America and the Railroad Brotherhoods of engine and train service employees, really function as shop committees, with complete and direct participation of employees in adjusting grievances and determining wages and conditions of employment. Joint work councils and district and national councils, in the United States, have also been organized and are operating successfully on a trade-union basis in the printing and molders' trades, the

electrical, window-glass, glass bottle, pottery, clothing and building industries. Elaborate cooperative plans and systems of employee representation are also working most successfully in part or as a whole in coordination with labor organizations as in the case of the Dennison Manufacturing Company, of Framingham, Massachusetts; the Dutchess Bleacheries, of Wappingers Falls, New York; and the Nash Tailoring Company, of Cincinnati, Ohio. The so-called "B. & O. Plan," which has also been adopted by the Chicago and Northwestern, the Chesapeake and Ohio, and the Canadian National Railroads, affords a further example of a cooperative plan for realizing greater productivity and efficiency, superimposed on and supplementing the work of regular, standard railway labor organizations.[20]

Both reason and experience, therefore, demonstrate that labor organizations and employee representation and cooperative plans should not be antagonistic but complementary and mutually helpful. The two movements should be coordinated. As a result, the union movement would be more liberal, intelligent, democratic, constructive and productive; the welfare of the mass of industrial workers would be constantly improved; industry itself would be stimulated and put on a new basis by the develop-

[20] "Workmen's Representation in Industrial Government," by Earl J. Miller, University of Illinois, Studies in the Social Sciences, Vol. X. Numbers 3 and 4, Chapter V, entitled, "Union Joint-councils in the United States." Also "The Shop Committee in the United States," by Carroll E. French, Johns Hopkins University Studies in Historical and Political Science, Series XLI, No. 2, Chapter IV, entitled "The Shop Committee and the Trade Union."

ment of a cooperative spirit, productive efficiency, and mutual confidence and helpfulness. This fact has been well expressed, from the organized labor point of view, by William Green, President of the American Federation of Labor, in a recent address as follows:

> The trade union is the only agency which workers have developed to serve their needs. It is the only agency which they control and consequently it is the only agency which they fully trust. In a conflict of opinions with management, only an independent agency can maintain the contention of wage-earners. Whether in maintaining their rights or expressing their views on production problems or technical change, if workers are to make their contribution they must be free to contend for their position.
>
> For example, trade unions helped scientific management to correct early mistakes by refusing to permit men and women to be treated as machinery. Scientific management learned it was necessary to understand human nature and to work with it instead of against it. Consent is necessary for cooperation —cooperation implies volition, not passive non-resistance.
>
> Obviously employee representation plans drafted by management are essentially different from trade unions. The trade union is a natural outgrowth from the experience and ideals of those concerned. It is the creation of workers, while the employee representation plan originates with another party, interested from another point of view.
>
> It is very difficult for many to realize that cooperation is the antithesis of domination. Domination, whether through bolshevism, fascism or a company "union," does not beget cooperation.

The industrial worker, if he is to have democratic independence of action and participation in

industrial government, cannot, with safety, accept the individual plant or single company, or even a number of plants of the same company, as the basis of organization and collective bargaining. Conversely, the employer who has inaugurated a plan of cooperative and collective bargaining for his employees cannot hope to be an exponent of economic justice and genuine industrial democracy unless he accepts the labor union as the basis. The wisdom and inevitableness of this course of procedure has been nowhere better pointed out than by the distinguished railway executive, Sir Henry Worth Thornton, Chairman of the Board of Directors and President, Canadian National Railways. In an address recently made before the Taylor Society of New York City, he said, in part: [21]

The capitalistic system succeeded the antiquated feudal system, and, as is the case in the introduction of all social systems, developed in its initial stages serious difficulties and problems. Like every system of so great a magnitude and world wide influence, it had to reduce itself to a rational bearing, and that is what is happening today in the relations between employer and employee.

Happily the time has arrived when the employer is prepared to recognize that unions and associations for the protection of the employee exist and cannot be eliminated, and that collective bargaining is just as essential to the welfare of the employee as associations of capital are necessary and useful to the investor; consequently the problem which today confronts us is how can these two essential factors of

[21] Bulletin of The Taylor Society, February, 1926, Vol. XI, No. 1, pp. 26-29.

production be brought to assist one another for their mutual welfare, and, of this, union-management cooperation in the railway industry is an expression.

* * * * * * *

Social and economic pressure continues until it reaches the explosive point, and at this stage the masses revolt, with serious consequences ensuing. The burden which rests upon right-minded and far-seeing individuals is to bring about improvements in the social system which are evolutions as distinguished *from revolutions.* There is no material psychological difference between the ruthless capitalist and the Bolshevist. It is only the accident of birth which makes him either one or the other.

. . . But I can say frankly on this occasion as I have said before, that, in all of my dealings with the working people and trade union leaders, I have never found the first to be deaf to reasonable argument and fair treatment, and I have never had one of the latter let me down or pursue a treacherous or dishonest course. I think we must accept as axiomatic the statement that the great majority of workers are fair and reasonable. If this is not the case, then we may as well put up our shutters and retire from the field with the knowledge that further advancement is impossible.

The capitalist owes certain obligations to labor, which have been set forth in previous addresses this evening with singular force and lucidity. On the other hand, equally do the labor masses owe a similar obligation to the employer. *Labor unions are here, and they are here to stay. There is no way in which they can be eliminated.* From the point of view of the worker, capital is equally entrenched and likewise is here to stay, and since, under the conditions which are likely to obtain for a long period of years, neither one can get rid of the other, is it not reasonable to recognize the fact that we are confronted by a condition and not a theory, and work for the mutual welfare of both?

The principal address at the same meeting was delivered by Captain Otto S. Beyer, Jr., who originated and developed the cooperative plan for management and employees on the Baltimore and Ohio Railroad. As a result of his experience he declared that so-called "company unions," or independent systems of employee representation, were, as compared with unions, unfitted to develop cooperative plans in a satisfactory way. The fact that employees had not organized themselves into unions was evidence, to his mind, of lack of capacity and initiative. He therefore reached the conclusion that much more aggressive action and effective cooperation could be obtained on a labor union basis of collective bargaining. His remarks, in this connection, were as follows:

> Obviously when the relationship between employees and company is simply on an individual contractual basis so that wages, conditions of work and hours of employment are strictly a private matter between each employee and the company, there is little if any basis for organized employee cooperation with management.
>
> The situation in the case of employees functioning under "Employees' representation" or "Company union" plans is not much better. Such plans either have been brought into being by management or exist by sufferance of management. Employees organized under these plans have had little or no training in overcoming obstacles and do not enjoy the support of affiliated workers and organizations in other industries. Hence, their organizations lack the capacity, experience, discipline, leadership and power of initiative to mobilize the collective faculties of their members to cooperate effectively with management. Their unwillingness or inability

to organize themselves independently and win recognition for their independent organizations attests to their basic incapacity to build the very foundation upon which cooperative effort must rest. Furthermore, without independent leadership and without the assurance that their organizations will safeguard for them their share of the gains of cooperation, company union employees can have no confidence in the company union type of organization. They cannot sufficiently be encouraged and will not feel properly inspired to participate enthusiastically in a program of cooperation. . . .

. . . So, in general, it follows that the full and cordial recognition of the standard railroad unions, their acceptance by management as necessary, helpful and constructive, together with agreements governing wages, working conditions and the prompt and orderly adjustment of disputes, comprise the three requirements for real employees' cooperation with management. In fact, genuine collective bargaining is really the beginning of union-management cooperation. For under collective bargaining management accepts the cooperation of the voluntary unions of its employees and their spokesmen as the proper and responsible agents of the employees in the creation of industrial law, and the adjustment of all questions arising under this law.

. . . In other words, instead of simply safeguarding wage rates, and conditions of employment, and providing for the orderly adjustment of grievances, collective bargaining paves the way for employee and officer jointly to consider and dispose of matters within their respective provinces which affect the welfare of the industry as a whole, as, for example, quality of service, elimination of waste, increased production and stabilization of employment.

. . . The first one of these objectives is agreement between unions and management to cooperate for improved railroad service, the elimination of waste and better operating efficiency. This objective is the justification for railroad management's and public's acceptance of the standard unions as

constructive factors in railroad operation, and so utilizing their help.

The practical experience of these two eminent authorities serves to emphasize the expediency, irrespective of the abstract principles of democratic government, of accepting the labor union as the basis of collective bargaining and cooperative effort. Aside from considerations of practical policy, however, it is clear that the labor union is fundamentally essential to representative government and democracy in industry. No plan of employee representation or cooperation can describe itself as "industrial democracy," unless it is based on an independent labor organization. The labor union fundamentally is an essential part of "the world-wide movement towards industrial enfranchisement of workers, towards workers' participation in the management of industry." [22]

Wages

The second fundamental principle essential to democracy in industry is the establishment of adequate wage standards. This is necessary not only to the physical and general welfare of the worker and his family, but also to the successful operation of the industry itself. Industry cannot function properly with a staff that is not at least physically maintained, or, in other words, protected by suffi-

[22] "Labor Relations in Industry," D. L. Hoopingarner—A. W. Shaw Company, N. Y. and Chicago, 1925, p. 109; also, pp. 76-81 and 129-132.

cient wages against physical deterioration. Moreover, the spirit of the workers, which is the real constraining force in cooperative effort, is dependent upon their freedom from economic and other anxieties, such as the inability to provide properly for their families, to educate their children, and generally to live according to American standards. If democracy, according to American ideals, means "life, liberty and the pursuit of happiness," an industry which offers rates of compensation to its workers insufficient to maintain proper physical life and to make possible a reasonable degree of happiness is a failure from the democratic point of view.

If adequate wages are, therefore, essential to economic justice and democracy, how may such a standard of compensation be defined? In principle, adequate basic compensation may be defined as the minimum rates which will enable industrial workers of the lowest grade, or unskilled labor, under usual working conditions, to earn sufficient income to enable them to support themselves and a normal family in health and modest comfort. According to the United States Bureau of Labor Statistics, this "represents a slightly higher level than that of subsistence, providing not only for the material needs of food, shelter, and body covering, but also for certain comforts, such as clothing sufficient for bodily comfort and to maintain the wearer's instinct of self-respect and decency, some insurance against the more important misfortunes—death, disability and

fire—good education for the children, some amusements, and some expenditures for self-development."

What such a wage level should be able to purchase for a normal family is described by this authoritative government agency as follows: [23]

1. A sufficiency of nourishing food for the maintenance of health, particularly the children's health;
2. Housing in low-rent neighborhood and within the smallest possible number of rooms consistent with decency, but with sufficient light, heat, and toilet facilities for the maintenance of health and decency;
3. The upkeep of household equipment, such as kitchen utensils, bedding, linen, necessary for health.
4. Clothing sufficient for warmth, of a sufficiently good quality to be economical, but with no further regard for appearance and style than is necessary to permit the family members to appear in public and within their rather narrow social circle without slovenliness or loss of self-respect.
5. A surplus over the above expenditures which would permit of only a minimum outlay for such necessary demands as:
   - *a.* Street car fares to and from work and necessary rides to stores and markets;
   - *b.* The keeping up of a modest amount of insurance;
   - *c.* Medical and dental care;
   - *d.* Contributions to churches and labor or beneficial organizations;
   - *e.* Simple amusements, such as moving pictures once

[23] U. S. Bureau of Labor Statistics, 1919. "Tentative Quantity and Cost Budget Necessary to Maintain a Family of Five in Washington, D. C., at a Level of Health and Decency." For similar budgetary standards see "Standards of Living," Bulletin No. 7, Bureau of Applied Economics, Inc., Washington, D. C., 1920 (Revised Edition).

in a while, occasional street car rides for pleasure, some Christmas gifts for the children, etc.;

f. Daily newspaper.

The fundamental economic right of unskilled industrial workers to such a wage was effectively stated by the Industrial Conference already referred to, composed of a distinguished group of representatives of the public, called by President Wilson in December, 1920. In its report it declared [24] that ". . . Considered from the standpoint of public interest, it is fundamental that the basic wages of all employees should be adequate to maintain the employee and his family in reasonable comfort, and with proper opportunity for the education of his children. When the wages of any group fall below this standard for any length of time, the situation becomes dangerous to the well-being of the state. No country that seeks to protect its citizens from the unnecessary ravages of disease, degeneration and dangerous discontent can consistently let the unhampered play of opposing forces result in the suppression of wages below a decent subsistence level. Above that point, there may well be a fair field for the play of competition in determining the compensation for special ability, for special strength or special risk (where risk is unavoidable), but below that point the matter becomes one of which the state for the sake of its own preservation, must take account."

[24] Report of Industrial Conference, called by the President, March, 1920, Washington—Government Printing Office, 1920, pp. 37 et seq.

Above this minimum rate for unskilled laborers, differentials should, of course, be established for the higher grades of semi-skilled and skilled workers varying according to training, experience, skill, hazards and productive efficiency.

Basic rates having been thus provided to maintain proper living facilities for the lowest grades of industrial workers and their families, and differentials above the minimum having been established to further compensate for higher gradations in skill and efficiency, methods should be adopted to prevent any reduction in standards of living. This may be done by creating machinery for ascertaining changes in retail prices, and when it is found that the cost of living of wage-earners' families has advanced or declined, to provide automatically for corresponding change in the basic rates of pay.

These two fundamental requirements of economic justice having been met, or the assurance to the workers of providing and maintaining without impairment proper standards of living, another principle should be applied which is of the very essence of democracy in industry. Arrangements should be made further to compensate the workers in accordance with economies and efficiencies realized through cooperation with management. The cooperative support of employees, in other words, having been enlisted, they should be guaranteed a just and reasonable degree of participation in the net gains resulting from their efforts.

The application of the democratic principle to the

wage scale of industry, to briefly recapitulate, requires, therefore, the satisfaction of three fundamental requirements, as follows:

(1) Establishment of just and reasonable standards of compensation.

(2) Maintenance of original purchasing power of these just and reasonable standards of compensation.

(3) Participation in net gains arising from increased work and productivity, and economies and efficiencies, contributed to by employees.

These considerations, it is obvious, require the abandonment of the ruthless economic law of "supply and demand," or "competitive rates," in establishing wage standards. Labor must be looked upon as a human productive factor with human needs and aspirations. Such an attitude is necessary not only from the standpoint of humanity and democracy in industry, but also from the point of view of the best interests of the industry itself. The application of proper standards of compensation and additional rewards for economies, efficiencies and productiveness will lower costs of production and make possible the highest industrial achievements.

During the past few years and especially since the war, there has been a complete change in the principles which have previously been put forward as the economic justification for wage determinations. The old theory was that wages were de-

termined by the law of supply and demand. Labor, in other words, was viewed as a commodity whose value was determined in the same way as other commodities such as wheat, coal, iron and steel. Little, if any, consideration was given by the economists of past years to the human or ethical elements in the wage problem. Their point of view was that the supply of labor as a productive factor increased in geometrical ratio. Through the placing of this supply at any time over against the demand for labor, the rate of pay to labor was determined. In the event of any dislocation to or collapse in industry, labor was the residual sufferer. The evils arising from unrestrained competition, the cutting of prices, decreased industrial demand and industrial depression or collapse were by the alleged immutable laws of economics imposed upon the wage-earner.

It is no cause for wonderment that industrial workers, under these pronouncements, came to look upon economics as the dismal science of despair. Under its principles they were without hope. The only possibilities for the advancement of their well-being lay in producing goods faster than the labor supply increased, in reducing the birth rate, or in the advent of some fortuitous pestilence, plague or earthquake, or war, which would decimate the labor supply and thus give labor a greater bargaining power in dealing with employers.

But the enlightened opinion of mankind refused to continue to give its sanction to such a hopeless theory of wage determination. More consideration

came to be extended to labor as a human and moral being. Gradually the conception was evolved that human welfare was superior to considerations of relentless, economic selfishness. Industry came to be considered as existing for men, and not men for industry. Industry, it was concluded, should be the servant and not the master of humanity. The verdict was accepted that any industry which could not operate under these humane and ethical limitations was anti-social. Labor was no longer to be considered as a raw material of industry or to be used and have its price determined as raw material.

Mr. Justice Higgins, President of the Commonwealth Arbitration Court in Australia since 1907 (a court with extraordinary powers and whose jurisdiction extends over an area approximately as large as the United States), delivered himself on this point as follows: [25]

> A growing sense of the value of human life seems to be at the back of all these methods of regulating labor; a growing conviction that human life is too valuable to be the shuttlecock in the game of money-making and competition; a growing resolve that the injurious strain of the contest—but only so far as it is injurious—shall, so far as possible, be shifted from the human instruments.

It should also be borne in mind in this connection that the law of supply and demand is directly dependent on competition and strife. In order to allow full play to the law, there must be no interference with the right of a company to lock out its

[25] Address before Candy Makers' Wage Board of Massachusetts, July 22, 1914.

employees, or with the right of employees to strike. If either one of these rights is surrendered or in any way modified, by that much the law of supply and demand ceases to be operative.

The first general official sanction to the new order in fixing wages was contained in the Clayton law, which was enacted by the Congress in 1916. It stated that "labor was not a commodity or article of commerce." In 1919 this pronouncement was further approved by the principal commercial and industrial nations of the world, through the statement in the provisions of the Peace Treaty that "labor is not merely a commodity or article of commerce." The attitude of the economists of the past generation, as well as the practices of industry itself, as to procedure to be followed in fixing wages, may now, therefore, be said to have received the unqualified condemnation of the civilized world.

The growing insistence upon the establishment of a basic wage which will yield a modest standard of health and comfort for the wage-earner and his family, and the development of budgetary studies as the means of determining such wages, has also been stimulated by the discovery of the appalling effects of low wages as evidenced by governmental and other investigations. Some of the most harmful effects of low or inadequate wages may be briefly summarized as follows:

(1) Increased Infant Mortality.
(2) Bad Health.

(3) Stimulation of Women and Child Labor.
(4) Destruction of Home Life.
(5) Increase in Crime.
(6) Impairment of National Safety.
(7) Weakening of Democratic Institutions.

These disastrous results of inadequate wages have been conclusively shown by investigations of the Commission on Industrial Relations, the Immigration Commission, the Children's Bureau of the U. S. Department of Labor, the United States Public Health Service, Senate Investigations of Women and Child Labor, the Report of the Provost Marshal General to the Secretary of War on the Selective Service System during the War, and by the studies of private individuals and social service organizations.

For a family to attempt to support itself on a lesser amount than an adequate wage does not mean a mere inconvenience, a doing without certain comforts. It means actual deprivation and degradation; either that or a resort to charity.

It means insufficient food, unsanitary housing, insufficient clothing for health and simple decency; even the lack of medical care in time of need; and because of the privations imposed, sickness is inevitable and more or less chronic.

For the husband, it means not only improper nourishment but perpetual harassment by debt, the constant fear of dependency, and the hopelessness of even proper burial when death comes, and all

this means a serious impairment of his efficiency as a workman.

For the wife, it means not only the personal sacrifice of most of the things a woman craves, but the torture of being unable to provide for the actual needs of her children. Also it often means that she must seek an outside "job" or take boarders and lodgers into an already crowded home.

For the children themselves, it means malnutrition, lack of proper education and an appallingly high death rate.

For the community, it means child labor and the harmful forms of woman labor. Except when other conditions are extremely favorable, it easily becomes the breeder of disease, unrest, immorality and crime. In all of these ways it saps the strength of the nation itself, and undermines the vitality of democratic institutions.

These are not wild or fanciful statements. They are the conclusions of medical experts, economic investigators, research foundations, governmental agencies, and other thoughtful students and observers of our industrial life.

Working Conditions

In addition to wages there are also certain standards of employment which have been sanctioned by the best industrial practice and experience and by the enlightened opinion of the civilized world.[26]

[26] See "The Industrial Code," Lauck and Watts, Chapter XIII, entitled "The Post-War Development of a Code," and Appendices

These should be the minimum requirements of industrial democracy. Improvements in standards will undoubtedly be made as the result of further industrial progress arising from the invention of new machinery and processes and the adoption of better administrative and technical methods. These advances will rapidly develop under a democratic industrial régime by mutual agreement between management and employees. The standard conditions of employment which may now be said to be mandatory upon democracy in industry are, briefly, as follows:

(1) A just and reasonable workday and work-week. This is generally accepted as a standard 8-hour day with Saturday afternoons and legal holidays off, and one day's rest in seven, preferably the Sabbath, if the industry's operation permits. The Ford Motor Company has recently adopted a five-day work-week and the organized labor movement has inaugurated a program for its general establishment in manufacturing and other industries.

(2) The payment of punitive overtime rates for work in excess of the standard day or week, in order to discourage employment in excess of the standards established.

(3) Prohibition of employment of women and children at night, and of children at any time under 16 years of age.

A-M and I-X, inclusive, which contain reprints of leading official and unofficial sanctions of an industrial code.

(4) Limitation of women's work to tasks proportionate to their strength.

(5) Payment of same rates to women as paid to men engaged in the same work.

(6) The privilege of an employee to be consulted and to have a hearing before final decision affecting his working conditions or discharge.

(7) Safeguards to protect the health and safety of employees.

(8) Provisions for retirement pensions for superannuated or incapacitated employees and for sickness and life insurance.

Certain standards, such as the length of the workday and others, will undoubtedly be changed, as has been stated, as industrial progress continues. The standards and guarantees enumerated above, at the present time, however, represent the irreducible minimum, so far as an industrial bill of rights relative to working conditions is concerned. In the case of requirements which require money outlays, such as pensions and life and health insurance, their cost should be deducted from the employees' share in profits under a cooperative and democratic plan of procedure.

Establishment of Cooperative Machinery Between Management and Employees

A considerable number of industrial, mercantile and financial establishments which are operated under conventional business methods have adopted the

policy of stimulating the efficiency and loyalty of their employees by granting to them a participation in profits. The employees are not invited, however, to joint counsel with management in an attempt to devise measures of increased economy, efficiency or productivity, and are not given a proper opportunity to gain an intelligent insight into the problems of the business. Under some alleged plans of industrial cooperation and democracy, the determination of the employees' participation in results is arbitrarily decided by management.

Genuine democracy in industry requires mutual and definite agreements as to methods and participation as well as complete opportunity to know the facts and problems with which the industry is confronted. There must be mutually agreed-upon machinery to insure responsible participation of employees in management, to enable employees to assist in effecting economies and in increasing productive efficiency, and to help in extending operations and in securing an expansion of the volume of business. Along with machinery should go a mutual agreement as to the degree of the employees' share in the pecuniary results.

This machinery should obviously consist of joint-committees or councils composed of an equal number of representatives of men and management. The number and character of such committees will vary with each industry and the objects sought. The jurisdiction of committees will range all the way from technical industrial problems to housing of

employees, recreation, life insurance and pensions. Those that immediately suggest themselves as of fundamental importance are joint-committees on production or new methods and processes, economies, elimination of waste, extension of demand for products, provision of new capital, and similar subjects. To all committees there should be complete and unrestricted access to information essential to their success.

Arrangements should also be made to permit the employees, when they do not own voting stock, to select representatives on the Board of Directors of the firm or corporation by which they are employed. While this does not assure industrial democracy in a fundamental sense, it will bring new ideas and a fresh point of view into that body, and will also enable employees to gain, through their own representatives, accurate knowledge as to the problems of the industry. The essential democratic procedure by which to realize employee participation in the final, directing control of the industry, is by employee stock-ownership.

Acquisition of Voting Stock by Employees

Complete and responsible democracy in industry requires the acquisition of ownership or of a preponderating degree of ownership in industry by employees. As this ownership must proceed upon the basis of purchase of stock by employees from their earnings or through their participation in

profits, it will be gradual and unaccompanied by any dislocations caused by inexperience and misguided action. Until such experience is gained, any possibility of inexperienced management also may be guarded against by the employees creating a voting trusteeship for their stockholdings, made up of experienced and responsible representatives. Employee stock ownership and control is an essential preliminary to the complete achievement of industrial democracy.

Professor Carver, of Harvard, in his recent noteworthy book, "The Present Economic Revolution," states that the rise of employee stock ownership portends a tremendous growth in the financial power of labor and a new order of society. "The figures demonstrate," he writes, "that since 1916 there has been an increase in the aggregate amount of annual dividends paid by corporations in the United States.[27] Both the absolute and proportionate shares of this total which go to the class of income above $20,000 (to be designated for the purposes of this paper the 'wealthy' group of the country) show substantial decreases from year to year over the period 1916 to 1921. The group which may here be termed the 'middle class' whose income ranges from $5,000 to $20,000 shows moderate increases in the amount of annual dividends received for the period 1916 to 1921, both in absolute figures and in proportion to the total. The largest and most significant increase in dividends received has taken

[27] Thomas Nixon Carver, "Present Economic Revolution," p. 109.

place in the class of incomes below $5,000 per annum, in the group which includes the 'wage earning class.'" In this connection, he also quotes other statistics showing the wide distribution of the recent Austrian and Japanese loans, and the great increase in employee stockholders in public utility and other corporations. "These and other figures presented show clearly enough," he concludes, "that the sum total of investments by small investors, presumably in the wage-working class, is only a small percentage of the total investments of the country. They are obviously a long way from getting control of the industries of the country through their investments. That, however, is not the important point. As already stated, the significant thing is that they have money to invest and are actually investing in increasing numbers, thus becoming small capitalists and getting a share of whatever profits are made by larger investors."

Collective Purchasing and Holding of Voting Stock Only Practical Democratic Method at Present

The most practical method for the purchase of stock by employees is to buy stock *collectively and hold it collectively through trustees* from (1) an assignment of a certain portion of their earnings, (2) from the proceeds of their participation in increased economies and efficiency under cooperative arrangements with management, or (3) from their

participation in net profits through agreement with management.

Individual purchase of stock by employees voluntarily or through the stimulation of management has been shown by experience to be unsuccessful. In the first place, only a part of the working forces buy stock, and it cannot, therefore, be made the basis for general cooperative effort or concerted action. Secondly, as the stockholdings are by individuals, they are not permanent. The individual employee either sells his stock because of temporary financial need or to realize profit when the stock advances in value. After adequate wage standards, through cooperative effort between employers and employees, have been established in an industry, employees can, without temporary or permanent inconvenience, purchase stock through additional gains arising from their participation in profits due to economies and increased productive efficiency. They can also do this collectively without fear of future loss as individual employees can be paid for their proportion of stock collectively purchased, should they leave the industry, or their heirs or assigns fully compensated in the event of death. The collective ownership of stock would thus permanently remain with those engaged in industry.

In a recent summary of national wealth and income in the United States, the Federal Trade Commission [28] reports that "employee stockholders

[28] Schedules were addressed to 10,000 corporations selected by the Bureau of Internal Revenue in such manner as to be representative

comprised 7.5 per cent of the common stockholders reported and 35 per cent of the preferred stockholders, but employee holdings represented only 15 per cent of the common stock and less than 2 per cent of the preferred."

From a study of income tax returns and dividends paid by all corporations in 1923, Mr. Lewis Carey [29] estimates that about eight million stockholders, receiving a total of 130 million dollars in dividends, or about four per cent or thereabouts of the total, were not included in the income tax reports. From a further detailed analysis of these returns, he concludes that the working class share in corporate ownership is absolutely and relatively insignificant. Altogether the holdings of 6,500,000 employee stockholders amount only to five hundred million dollars [30] showing labor has made an absolute but not a relative gain in corporate holdings.

Public utility corporations have shown the largest increase in stockholders. Since 1918 they have secured 3,500,000 new stockholders, but of these only 500,000 were employees, while the percentage of wage earners is very small.

The extent of employee stock ownership has in-

not only of the size but of each of the 43 industrial groups into which the Bureau's returns are divided for tabulation. Returns were received by the Commission from 4367 corporations, with a combined capital stock of over nine billion dollars, or about twelve per cent of the capital stock of all corporations. Summary of the National Wealth and Income. Federal Trade Commission, May 25, 1926.

[29] Lewis Carey, *New Republic*, May 5, 1926.

[30] Mr. Carey quotes A. W. Atwood in New Ownership, *Saturday Evening Post*, February 13, 1926, p. 22.

creased but the degree of control exercised by employees is very small.[31] After an internal drive by the United States Steel Corporation for twenty years with the object of inducing stock purchases by employees, the percentage of such holdings was only nine per cent of the total market value of steel stock in December, 1925. The same is true of the Consolidated Gas Company of New York, where forty-three per cent of the employees own stock, but where the average holding is only three shares per employee. Each is limited to 20 shares of the preferred stock at par value of 50. The New York Central Railroad and the Bell Telephone System, while boasting of the increase in employee ownership, state that the average holdings per employee is only four shares, and in the Bell System only five per cent of the employees are eligible.

The conclusions drawn by those who participated in the discussion of the subject at a meeting of the Academy of Political and Social Sciences in April, 1925, show that the arguments as they are at present applied against the plans of stock acquisition by wage-earners are stronger than those favoring them. The proponents believe that stock-purchase schemes will increase the employee's interest in his job, his work, and in the business of the corporation, will stimulate his productive efficiency, avoid waste, make him a responsible citizen, and give him permanency of employment—all these factors lessening

[31] Proceedings of Academy of Political and Social Sciences, April, 1925.

the traditional friction between capital and labor. The net results [32] of the schemes for individual employee stock purchase now in operation, however, show that the loyalty of the employee has not been secured. The chief obstacle has been that employees as a whole have not been allowed to gain an appreciable degree of control or voice in the policy of the corporation, so that their position as "future partners," claimed by the corporations adopting stock-selling plans, is little more than an empty phrase so far as industrial democracy is concerned. Stock purchased individually is not, as a rule, permanently retained. Moreover, and this is of fundamental importance, a great many companies restrict their security sales to wage-earners to preferred stock, investment certificates, employees' investment bonds, participating certificates, etc.[33] Habits of saving are thus encouraged, and employees acquire a pecuniary interest in the corporations by which they are employed, but, at the same time, they are denied the right of franchise so far as voting for directors or being represented on the boards of directors of the corporations is concerned.

It is clear from practical experience, therefore, that plans for selling stock individually have not been a success. While they theoretically conform to

[32] *Ibid.*

[33] See "A Report on Employe Stock-Ownership Plans," Prepared by Policyholder's Service Bureau, Metropolitan Life Insurance Company, New York, 1923, and "Employe Stock Ownership in the United States," by Robert F. Foerster, and Else H. Dietel, Industrial Relations Section of the Department of Economics and Social Institutions, Princeton University, 1926.

the fundamental requirements of industrial democracy, the only successful basis of procedure under existing conditions and in the beginning, at least, is for employees collectively to purchase and hold common stock in an undertaking for which they are working. Their interest is thus collectively secured and maintained and can be used cooperatively and collectively as a unit. When an employee leaves the industry, either voluntarily or involuntarily through death, disability or just discharge, he can be reimbursed for the proportionate value of his holdings, and such holdings made available for other employees who remain or come after him. Collective influence and representation in the administration of the industry thus remains with those who are directly engaged in its work and who are responsible for its achievements.

Employee and Customer Provision of New Capital

The achievement of industrial democracy also requires the meeting of new capital requirements through the cooperative action of employees and customers of the industry. This may be accomplished by the sale of new securities to employees, the cooperation of employees and management in selling new securities to customers or the public, or, when the voting stock of the corporation is controlled by management and employees (of which there are now only one or two instances known to the author), by the reinvestment of net profits in the business.

This method of democratization is made necessary in order to emancipate industry from its dependence on private and investment banking institutions. So long as it is dependent upon these institutions for its credit and capital requirements, there can be no complete freedom or democracy for those engaged in industry or for those who use the products of industry.

Commercial and agricultural banking facilities have, to a great extent, been decentralized and democratized. So-called investment or private banking, which is primarily engaged in the underwriting and flotation of new corporate securities, is still autocratic and economically indefensible in its practices. It uses its centralized control of credit and capital facilities to influence and control industrial policies and to reduce industrial undertakings to a state of dependency or subordination. By the issue of fictitious securities in the financing of corporate organizations, reorganizations and consolidations, it also absorbs the productive gains arising from the economies of large scale production and distribution, the increased work and productive efficiency of management and employee, and the unearned increments produced by the development of the country and its growth in population. Otherwise these industrial gains would accrue to the advantage of employees and management in industry or to those who use the services or commodities produced.

In order that these benefits may go to those directly engaged in industry and the consumers of

industrial services and products, so-called investment banking houses and institutions must ultimately be democratized. Pending that time, however, democracy in the operation of industry renders it necessary, if possible, for securities issued to secure new capital, to be sold to the employees of the industry or its customers. Underwriting commissions and other charges and the absorption of productive gains by unwarranted issues of new securities, as well as the subordination of industrial undertakings to highly centralized and powerful and autocratic banking institutions must, temporarily at least, be prevented by the direct absorption of new securities by industrial workers and consumers.

Obligations of Citizenship in Industrial Democracy

The essential principles and standards of industrial democracy, which thus far have been enumerated, practically without exception require some form of concession from industrial management or capital, as, for example, the statement that the labor union must be accepted as the basis of collective bargaining, or the dictum that private or investment bankers must be democratized. To these and other fundamental contentions, it is, of course, realized that it may be effectively stated in reply, "How can an employer afford to deal with unions with the expectation of any profitable results when they have been guilty of using their power to restrict output and increase production costs, have engaged

in sympathetic strikes, or have exacted arbitrary and indefensible conditions of employment such as the 'full crew law' on the railroads? How can there be any cooperative gains from the recognition of and the placing of confidence in organizations which are guilty of such policies and practices? A 'living wage' standard of compensation, or a shorter workday require increased output, and can this be expected from members of labor organizations? Private and investment bankers may be charged with sins against industry, but are not the labor unions equally bad?"

A New Spirit and a New Order Will Be Inaugurated

The answer is as apparent as the experience which causes such reasonable doubts. Industrial democracy really assumes that a new régime is to be inaugurated—a new spirit is to be invoked in industry. It means the substitution of cooperation for conflict, confidence for distrust, and an attitude of mutual obligation and helpfulness for competition and restriction. A spirit of sincere democracy must constrain the whole structure. Without this moving force, any form or enumeration of standards will ultimately become futile. Strikes, suspicion and the use of force must be put aside. The animating spirit must be one of mutual trust and helpfulness, which, just as in any successful political democracy, says "Come, let us reason together. Let the spirit of

common counsel and cooperation prevail, and let our efforts and objects be for the common good."

If the future of industry should be judged by past practices, it would be logical to conclude that any real progress in democracy and cooperation would be impossible of attainment, for it is apparent from past performances that employers, employees, labor unions, management, and bankers have all sinned and fallen short of the real standards of efficiency and democracy. From the records of any or all it could be readily inferred that nothing could be done. A great many labor union practices have been restrictive, unproductive, and from an economic standpoint, unsound and indefensible. Management and employers, by their own confession, have been glaringly inefficient and wasteful.[34] Private and investment bankers have arbitrarily taken unjustifiable margins from industrial output, have imposed permanent burdens upon wage-earners and consumers by unwarranted security issues, and have handicapped management by requiring the conduct of industry from a purely dividend-producing standpoint.

None of these fundamental factors can, therefore, justly accuse the other, because the hands of all are unclean. The attitude and practices of all must be changed. The past industrial order represented

[34] See report "Waste in Industry," by the Committee on Elimination of Waste in Industry of the Federated American Engineering Societies, Published by Federated American Engineering Societies, Washington, D. C., 1921. Also *The Tragedy of Waste*, by Stuart Chase, The Macmillan Company, New York, 1925.

conflict. It was not based on what could be accomplished by efficiency and cooperation but rather upon what one factor could exact from another through superior organization and economic strength. It represented a practical application of the spirit of relentless and ruthless self-interest.

Experience finally demonstrated, however, that this did not pay. It was learned that each could gain more by cooperation than by fighting. It was found out that the policy of the different productive factors continuing to ignore their obligations to each other meant the constant impairment of the productive possibilities of industry and its ultimate destruction. This knowledge came not only through the disasters which labor unions and employers suffered because of arbitrary action or because of the madness of too much power, but also as the result of actual experimentation in industrial democracy and cooperation. Studies by engineers and by governmental agencies made manifest the appalling wastes and losses which existed in industry because of a lack of cooperation between management and employees.

Forward-looking bankers and leading executives of manufacturing and transportation corporations have, therefore, during recent years, become convinced that the old arbitrary attitude of labor and capital towards each other must give way to a new system of democracy, mutual effort, and cooperation, if industry is to continue profitable and realize its maximum possibilities. At the same time organ-

ized labor has also been awakened and its leaders have been quick to realize the call for a new spirit in industry. Extended citations in proof of this change of attitude might be submitted, but it is sufficient to read only from the recent speeches of William Green, President of the American Federation of Labor, in order to be fully convinced. In a recent address before the Harvard Union, at Harvard University, he reviewed the evolution of trade unionism in this country, and set forth clearly the policies and practices of modern unionism as contrasted with the policies and practices of former years. His statement of the conceptions of the new unionism is so significant that it has been considered profitable to draw somewhat extensively from his remarks on this occasion.[35] He said, in part:

> The outstanding and primary factors in all industrial enterprises are capital and labor. Both are essential in industry and each is dependent upon the other. Between them there is an interdependence so fixed and irrevocable as to make complete success attainable only through understanding and cooperation. If there might or could exist between these two prime factors a proper regard for the functional service of each, within their recognized spheres of jurisdiction, then the age-long conflict between these two forces would be terminated. This would be a most happy and desirable accomplishment; for with understanding, goodwill and cooperation established between these basic, indispensable factors in industry all other elements could be developed and utilized to the highest points of efficiency.

[35] "Modern Trade Unionism," by William Green (An address before the Harvard Union), published by the American Federation of Labor, Washington, D. C., 1925.

It is to these problems of industrial cooperation and understanding that modern trade unionism is addressing itself. We do not believe our common problems are impossible of solution nor do we believe the obstacles to be met are insurmountable.

* * * * * * *

The assurance of complete success through the medium of collective bargaining must be predicated upon a mutuality of interest in industry. A positive understanding must be reached providing for a proper regard and a just recognition of the rights of all concerned. Inasmuch as collective bargaining is based and founded upon group action the union of the workers must be unreservedly recognized. In similar fashion the right of employers to control, direct and manage industry and to receive a fair return upon invested capital must be willingly conceded. A spirit and purpose to follow the right and to do the right, to take no unfair advantage, to practise no trickery or deceit, neither to threaten nor coerce, should govern the representatives of employers and employees in all wage negotiations and conferences. Through such reciprocal relationship the common problems of industry can be solved, efficiency in service promoted and economies in production introduced. The practical operation of such a plan of understanding must necessarily be based upon the presumption that employers and employees are no longer inspired by hate, malice and enmity toward each other. Instead, the antagonistic and hostile attitude, so characteristic of the old order in industry, must be supplanted by a friendly relationship and a sense of obligation and responsibility. This is the newer concept of Modern Trade Unionism. In expounding this philosophy I am conscious of the fact that there are employers of labor (so-called Captains of Industry) and workers in industry (so-called members of the proletariat) who take sharp issue with the views here expressed and the conclusions reached. That is to be expected. It is both logical and natural.

While the employers and employees represented in these two groups are as far apart as the poles upon practically all questions peculiar to modern industry they are united in their opposition to collective bargaining. They do not believe in it and see no virtue in it. The employers in this group are opposed to collective bargaining because they believe that ownership in industry is supreme, superseding all other rights, and that this is the only authority recognizable in industry. The discarded rule of master and servant is still a part of their creed. They refuse to recognize the relationship of employer and employee. The workers who constitute this other group are opposed to collective bargaining because they assert it means wage slavery. They do not believe in wage contracts or wage-scale regulations. They preach class war and class struggle. They are opposed to the existing social order, to what they term "capitalism," and pretend to look forward to the time when capitalism will be destroyed and the rule of the proletariat will be substituted in its place. . . . Obviously modern trade unionism is opposed to these two extremes and of necessity is forced to contend against the vigorous opposition which emanates from these groups. Confronted by hostile employers and the workers' revolutionary group, trade unionism is pursuing its own policy, fighting for public acceptance of its creed and philosophy.

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It is clear to all who have studied the history of this great social and economic development that trade unionism is not a discovery or a formula. It grew and evolved slowly out of the needs of human experience. In the beginning when unions were first formed their primary purpose was to defend the workers against wage reductions and unfair treatment. They were regarded almost solely as defensive measures for defensive purposes only. It seemed that the thought uppermost in the minds of the workers was the maintenance

of what had been secured by them in the way of wages and working conditions. The methods employed in those days could be characterized as dominantly militant. The rule of force and might seemed to guide and influence the thoughts and actions of the workers. Concessions granted to workers by employers were usually forced through the medium of industrial warfare. There was little attention given to the thought or suggestion of conference, understanding and reasoning between employers and employees. The thought of fight to win, of force and brutality seemed to inspire both employers and employees in their industrial relationships.

From such crude and primitive beginnings trade unionism and organized labor has grown into the place which, with increasing influence, it occupies in our social and industrial life today. During the formative period organized labor relied almost solely upon its economic strength while today it places immeasurable value upon the convincing power of logic, facts and the righteousness of its cause. More and more organized labor is coming to believe that its best interests are promoted through concord rather than by conflict. It prefers the conference table to the strike field.

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Organized labor recognizes and appreciates the value and importance of education. It believes that the workers can advance their economic and social interest through education and knowledge. The workers believe fully that the future of the trade union movement is very largely conditioned upon the effectiveness with which we link up educational opportunities with trade union undertakings.

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The trade union movement has been passing through that period when physical controversies and the tactics of force were most effective; it is now in a period when its leaders must seek the conference room, and there, by exposition and

demonstration, convince conferees of the justice and wisdom of Labor's position. In such service Labor is finding a special need for trained representatives and effective information.

The new idea of joint responsibility in approaching the solution of industrial problems on the part of the employers, management and employees is being tried in various lines of industry. As a result of the shopmen's strike in 1922 the management and employees of the Baltimore and Ohio Railroad have been working together in a constructive way and with what seems to be most successful results.

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In these and in various other ways the organizations of labor are adjusting themselves to the marked changes which have come through education and the modernization of industry. The union of the workers is not standing still. It is consolidating the gains of the past and pressing courageously along the highway of progress. The union itself is an elemental response to the human instinct for group action in dealing with group problems. Daily work in industry is now a collective undertaking. The union expresses the workmen's unsatisfied desire for self-betterment in all of the phases that desire may find expression. No substitute can hope to replace the union for it has the intrinsic right to existence which comes from service rendered to fit changing stages of development. Many wage earners have had dreams of ownership of industry but we all know that whatever the ownership, private, governmental or employee, the vital problem for us is the terms and relations we have with management. To deal with this problem, labor must always have its voluntary organizations directed and managed by itself.

In a more recent address before the Taylor Society of New York, President Green was very specific as to the new ideal of organized labor, which hoped

for cordial and cooperative arrangements with management.[36] He said:

> Labor realizes that the success of management means the success of labor.
>
> For that reason labor is willing to make its contribution to assist management and to bring about the right solution of problems dealt with by management.
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> * * * * * * *
>
> The workers believe that through understanding and cooperation the best interests of all those associated with industry can be served.
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> * * * * * * *
>
> Through such understanding all the associated productive powers of industry can be mobilized into an economic, sustained, impelling force through which economy in production may be completely accomplished. Through the development of a cooperative spirit and the establishment of a frank relationship the rewards of the efforts of all those associated with industry can be equitably distributed.
>
> The wisdom of such a policy will be made manifest in a high standard of workmanship, in increased industrial earnings, in waste elimination and in the personal contact between management and the workers which is free from suspicion, antagonism and hatred.

The organized labor movement of the country, therefore, for which Mr. Green speaks, is in accord with the changing attitude of industrial bankers and executives. He points out clearly the causes of old practices which have been abandoned, and gives a description of the changed policies and aspirations

[36] "Labor's Ideals Concerning Management," Address by William Green, President of the American Federation of Labor, Bulletin of the Taylor Society, Dec., 1925, Vol. X, No. 6.

of labor unions, which are thoroughly in accord with the inauguration of a new epoch in industry in which common counsel, democracy, and cooperation are to be the underlying factors.

The same attitude is taken by outside students of the problems and policies of organized labor. The distinguished economist, Dr. John A. Ryan, in an address delivered at Labor Sunday Meeting, Carnegie Hall, September 5, 1926, after reviewing the militant policies of organized labor in the past, and the criticisms which had developed from these policies, declared, "The time has come when the militant attitude and the policy of demanding more and ever more in the matter of wages and working conditions should be supplemented to a policy of cooperation with the employer and studied attention to the welfare of industry and the community. . . . The problem then is not to eliminate this antagonism of interests, for that is simply impossible. It is rather to find means of reducing the antagonism to its lowest possible degree. What is wanted is a shifting of emphasis. At present the major emphasis is placed by each party upon its particular interest rather than upon the interest which is common to both. . . . Here, then, is a great task for the American labor movement. Let it continue to seek better wages and better working conditions for its members; let it continue and even greatly increase its efforts to bring into the unions the vast numbers of wage-earners who are still unorganized; let it continue the campaign for protective labor legislation,

particularly for relief from judicial abuse of the writ of injunction, but let it in addition systematically and earnestly set about the task of establishing as rapidly as possible arrangements for labor sharing in management such as are exemplified in the B. and O. Plan of union-management cooperation. The benefits under the heads of more pleasant employment relations, satisfaction of the employees with their work, better remuneration, and advantages to the employer and the community have been sufficiently sketched above. There is another advantage which no agency is so well fitted to bring about as the labor union. That is education of the workers in self-respect, in the conviction that they are fitted to be something more than mere instruments of production, and in the capacity to take a gradually and indefinitely increasing share in the management and operation of industry. Through this process of training the wage-earners will in due time be able to demand a share in the surplus profits and a share in determining all the policies of the industrial concern, and will become fitted to carry on cooperative industries and to sit on the directing boards of publicly owned and democratically managed cooperative industrial enterprises. It will be a sad day not only for the workers but for American society when the masses of our wage-earners become congealed in a distinct and dependent class. No beneficent condition of wages, hours, or other working arrangements can compensate for this loss of dignity and democracy. We do not want to become a nation of

hired men. If the American working class is to be saved from this deplorable status, the task must be performed by the labor unions. And the first step in the process is to establish the practice of labor sharing in management. . . . Obviously this condition is little more than a benevolent serfdom. Under it the mind of the workers will become a slave mind. If they are to be rescued from this danger they must be made to realize that they have capacities for something better and higher. They must be enabled to regain their lost self-respect, their native desire to exercise other human faculties in addition to the faculty of carrying out orders. The practice of sharing in the productive side of industrial management seems to be the most suitable means of beginning this task of rescue."

The conclusion is obvious—neither capital, labor, nor finance need be apprehensive about entering into or meeting the requirements of industrial democracy because of the fear that former practices will be continued. Moreover, it ill-behooves any of these essential factors to criticize another, for the reason, as judged by the past, all are guilty. Moreover, the duty of all is manifest. They must put aside the past—the old prejudices and practices which encumber them—and, unhampered, press forward under a new cooperative régime, with new principles and a new spirit. A noteworthy writer has fairly stated the case in a recent book in saying, "Surely labor is not solely responsible for the labor unrest today. If we attempt to assign the blame to any

element or group within society, we must place it mutually upon the shoulders of all elements of society, and upon the general public attitude. What we first need to recognize is that the present differences and difficulties between capital and labor are largely the product of an impersonal, unbalanced, and conflicting order of the past. Then industrial society can proceed to build constructively for the future." [37]

The obligations upon both labor and management under industrial democracy, as set forth by Doctor Charles Eliot, former President Emeritus of Harvard University, and which have been set forth at the beginning of this chapter, are comprehensive and require no repetition at this point. They deserve the most careful consideration and observance. The gratifying aspect of the whole matter, however, is that these obligations under industrial democracy are in reality a re-statement in a different form of the evils which during past industrial history were in conflict with the attainment of democracy, but, with the adoption of the new spirit of confidence and cooperation by employers and employees, these old obstacles will automatically disappear.

Finally, the acceptance of the new spirit and attitude of modern unionism by employers, and the granting to organized labor of the fundamental rights and standards of industrial democracy is, according to the best judgment of representative managers, industrial engineers, and students, the

[37] "Labor Relations in Industry," by Dwight Lowell Hoopengarner, New York, 1925.

one factor which will make for greater productivity and lower industrial costs and prices. In this connection, Mr. Edward A. Filene, a prominent employer and student of industrial problems, in addressing the American Academy of Political and Social Science on the subject of the obstacles to maximum industrial production, very pertinently said:

> Labor . . . having experienced the advantages of democracy in government, now seeks democracy in industry. . . . Is it any stranger that a man should have a voice as to the conditions under which he works than that he should participate in the management of the city and the state and the nation? If a voter on governmental problems, why not a voter on industrial problems? . . . There is, of course, danger that labor might in this way gain too much power before it was ready to assume so heavy a responsibility, for it would practically control the industrial situation. However, if this danger could be eliminated by developing a new form of industrial organization which admitted labor to partnership, it might be expected that one of the greatest obstacles to future maximum production would have been overcome in advance.[38]

The testimony from every reliable source is unanimously and unreservedly to the effect that the adoption of the spirit and standards of industrial democracy will make for industrial efficiency, as well as for individual justice and liberty. No spec-

[38] Edward A. Filene. "Foreign and Domestic Obstacles to Maximum Production." Annals of the American Academy of Political and Social Science. July, 1920, p. 116.

ters invoked from the past by apprehensive or timid employers or labor leaders should be permitted to interfere with rational, democratic, industrial progress.

IV

PRACTICAL EXTENT OF THE MOVEMENT FOR INDUSTRIAL DEMOCRACY

Individual Attempts Toward Industrial Democracy

The principles, standards, and fundamental conceptions, which have been reviewed in the preceding chapter, constitute the intangible results, as it were, of the post-war movement towards industrial democracy. Although the possibility of the early adoption in this country of these principles and standards or any far-reaching attempts at industrial democracy were destroyed by the industrial warfare which succeeded the era of good-will and the spirit of cooperation immediately following the Armistice, there were many individual efforts, within industry itself, some arising from commendable and others from unworthy motives, which afforded a beginning, and constituted the inauguration of a practical movement in a limited way towards industrial justice and democracy.

Already some far-seeing corporations, with constructive leadership, such as the Dennison Manufacturing Company in Massachusetts, and the Philadelphia Rapid Transit Company, under the

management of T. E. Mitten, in Philadelphia, and Wm. S. Filene Sons in Boston, had, before the war, inaugurated comprehensive and acceptable plans for employee recognition and participation in the control and output of industry. In a much more restricted way, other industrial undertakings had adopted welfare policies and measures for sharing profits with their employees. After the war, with the development of an aggressive agitation by industrial workers for general measures of recognition and democracy, many employers voluntarily introduced systems designed to recognize employees in management and develop a spirit of cooperation. This tendency was stimulated by the aggressive tactics of trade-unions and by the fear that unless some more conservative measures were adopted, the widespread unrest and agitation might impose more extreme measures. The revolution in Russia, and the general turmoil and dissatisfaction among industrial workers, both here and abroad, it was felt, required, as the part of wisdom and industrial efficiency, some concessions from the autocratic attitude which had been previously maintained by many industrial managers. This state of mind both here and abroad was referred to by President Wilson in an address to the Congress on May 20, 1919. Speaking of labor, the President said:

> The question which stands at the front of all others in every country amidst the present great awakening is the question of labor. . . . Those who really desire a new relation between capital and labor can readily find a way to

bring it about. . . . The object of all reform in this essential matter must be the genuine democratization of industry based upon a full recognition of those who work, in whatever rank, to participate in some organic way in every decision which directly affects their welfare.

The opinion was also undoubtedly general among employers who had opposed labor organizations that unless their employees were given some recognition and the right of collective action, their establishments might be captured by the unions. Others, for similar reasons believed that, if their undertakings were to continue prosperous and attain their maximum efficiency, the cooperation of their employees must be assured.

Foreign Experience Drawn Upon

The ideas and plans for this movement were largely borrowed from and based on precedents established abroad. After the war there was a pronounced movement in Great Britain and on the Continent towards the establishment of shop committees, industrial councils, work committees and joint-works councils, especially in England, Germany, Austria, Norway and Czecho-Slovakia. These plans were diverse in form but all had certain fundamental features in common. They were designed to advance the democratic control of industry, to develop cooperation between employers and employees and to stimulate industrial efficiency.[1]

[1] "Workmen's Representation in Industrial Government," by Earl J. Miller, University of Illinois Studies in the Social Sciences, Vol. X,

The American movement was largely drawn from British experience and primarily based on what was popularly known as the Whitley Councils. The Whitley Committee in England (from the name of its Chairman) was appointed by Premier Asquith in 1916, and was officially a committee for recommending reconstruction measures after the war. In its report, the committee recommended shop and industrial joint-committees composed of representatives of employers and members of the local unions, and also, for each industry, a national joint-council, made up of representatives from the employers' association and of the national unions of the industry.[2] Up to September, 1920, 68 national councils had been formed, of which 63 were in operation, representing 3,500,000 workpeople. The recommendations of the Whitley Committee that joint-committees and councils be composed of representatives of employers' associations and trade-unions in equal numbers was adopted in all cases.

British measures and experience had a pronounced effect upon the methods and details of organization of the employee representation movement in the United States with the important exception that representatives of employees on committees

Nos. 3 & 4. This study in Chapter I contains an excellent analysis of the movement for industrial councils abroad after the war.

Another excellent study in this connection is that of Carroll E. French, "The Shop Committee in the United States," Johns Hopkins University Studies in Historical and Political Science, Series XLI, No. 2.

[2] The report of the Committee is reprinted in full in Bulletin of the U. S. Bureau of Labor Statistics, No. 255, Washington, 1919.

and councils were not drawn, as a rule, from trade-union membership. The work of the National War Labor Board and the Shipbuilding Wage Adjustment Board, in establishing systems of collective bargaining in industrial plants during the war, also supplied many forms and precedents which were adopted by the post-war movement in this country.[3]

The Spread of the Employee Representation Movement in This Country

In its main characteristics this movement consisted in the adoption by many industrial establishments of shop committees and what became generally known as systems of employee representation. The shop committees usually followed the governmental precedents established during the war. The plans for employee representation were more extensive, providing usually for systems of collective bargaining embracing all the shops and departments of large plants, and even for the organization of general, joint, federated councils for a number of plants operated by the same corporations. This machinery of collective bargaining was also supplemented in many cases by retirement pensions, sick, health and life insurance, medical attention and other welfare measures.[4]

[3] The war-time principles, agreed to by labor and capital, required the maintenance of the pre-war status in industry except that the absolute right to collective bargaining was guaranteed. Where there had been no union before the war, only shop committees could be established by governmental agencies.

[4] The names given to these various plans have been comprehensively enumerated by Dr. Miller in his admirable study before re-

The movement extended very rapidly during the two years 1919-1920, and although it was checked by the industrial depression of 1921 and many plans already put into effect were permanently or temporarily abandoned, it has had a well-sustained growth up to the present time. There is no complete list of such organizations in the United States. A conception of the growth of the movement and its present status may be gathered from a recent report of the National Industrial Conference Board as the result of studies made by its research organization in 1919, 1922, and 1924. It shows the following data regarding systems of employee representation, or, in other words, works councils and their membership.[5]

	1919	1922	1924
Number of Works Councils in Operation	225	725	814
Number of Workers covered by these plans	391,400	690,000	1,117,037

ferred to ("Workmen's Representation in Industrial Government," Vol. I, University of Illinois Studies in the Social Sciences, p. 37), as follows: "Cooperative Association," "Employes' Representation Plan," "Conference Plan," "Employes' Cooperative Plan," "Joint Conference Committee," "Mutual Aid Society," "Industrial Partnership Plan," "Industrial Representation Committee Plan," "Representative Industrial Congress," "Plan of Industrial Democracy," "Cooperative Welfare Association," "Plan of Shop Control by Joint Representation," "Industrial Council Plan," "Plant Committee Plan," "Shop Committee Plan," "Plan of Industrial Relations," "Cooperative Management," "Democratic Industrial Government," "Industrial Constitution," "Employes' Conference Committee," "Partnership Plan," "Joint Representation of Employes and Management."

[5] Special Report Number 32, of the National Industrial Conference Board (1925), "The Growth of Works Councils in the United States."

It will be noted that in 1919 the number of employees covered by works councils was 391,400, but in 1922 it had increased to 690,000, and two years later had further advanced to 1,117,037. During the same period the total number of councils had grown from 225 to 814. The 814 plans existing in 1924, as analyzed by industries, is shown below:

DISTRIBUTION OF WORKS COUNCILS BY INDUSTRIES, 1924

Industry	Number of Councils
Machinery and Appliances	34
Iron and Steel Mills	17
Railway Equipment	83
Sheet Metal, Wire Products	3
Machine Parts	5
Electrical Goods	12
Structural Steel	3
Automobiles and Bodies	3
Bronze and Brass Goods	6
Office Appliances	1
Hardware	23
Watches and Musical Instruments	3
Foundries	6
Silverware	10
Metal Beds	1
Shipbuilding	6
Mining	16
Food Products	41
Clothing	6
Textiles	28
Lumber	160
Railroads	26
Street Railways	18
Other Public Utilities	26
Petroleum	19
Soap	4
Wood Products	3
Rubber Goods	38
Printing	111

Industry	Number of Councils
Paper and Products	10
Smokers' Articles	1
Fertilizers	1
Milk Distribution	1
Leather Products	12
Buttons	1
Cameras	1
Furniture	1
Retail Stores	26
Garment	1
Longshoremen	35
Dye and Chemicals	3
Coffiers	1
Cotton Oil Refining	1
Unspecified Industries	7
Total	814

The textual comment of the Conference Board on the distribution by industries, and on the increases and decreases since 1919 in certain industries, is as follows:

It is interesting to note that the metal trades account for a little less than one-third of all the councils. Of the other industries, lumber and printing include a large proportion. This is due to organization of the Loyal Legion of Loggers and Lumbermen, the American Guild of the Printing Trades, and the Graphic Arts Industrial Federation. The conspicuously large decrease in numbers in mining is due to the abolition of the Maryland agreement,[6] and in the lumber industry to a decrease in employer membership in the 4'Ls.

The most noticeable increase in employee representation plans has been in the printing trades and in public utilities, especially transportation.

[6] This was an arrangement by which the use of works councils in certain coal fields was initiated by the Federal Government during the period of the functioning of the Fuel Administration.

During the period, 1922-1924, a total of 194 works councils were abandoned. The causes of discontinuance stated by 35 employers operating about 50 works councils in reply to a query by the Conference Board, were as follows:

Discontinued because of business depression	12
Discontinued because of lack of interest	12
Discontinued because of friction	5
Discontinued because of bonus profit sharing	3
Discontinued because of domination by a management representative	2
Discontinued because they accomplished nothing	1

The number of new works councils or employee representation plans put into effect from 1922 to 1924, however, was 283. Despite an abandonment of 194 during the same period, there was a net increase of 89 in the number of plans during the two years.

Date of Origin and Source of Origin

An interesting picture of the movement from the standpoints of the time of origin of the plans and the sources of origin is afforded by another table from the Industrial Conference Board's Special Report in 1925. This table is reproduced below:

DISTRIBUTION OF WORKS COUNCILS BY DATE OF ORGANIZATION AND SOURCE OF ORIGIN[a]

Origin	No date given	Before 1917	1917	1918	1919	1920	1921	1922	1923	1924	Total
Active in 1919											
U. S. Govt. Initiative	—	—	2	38	40	—	—	—	—	—	80
Company Initiative	6	12	4	26	23	—	—	—	—	—	71
Total	6	12	6	64	63	—	—	—	—	—	151

Origen	No date given	Before 1917	1917	1918	1919	1920	1921	1922	1923	1924	Total
Active in 1922											
U. S. Govt. Initiative	—	—	—	9	5	38*b*	—	—	—	—	52
Company Initiative	17	8	8	30	76	27		3	—	—	188
Total	17	8	8	39	81	65	19	3	—	—	240
Active in 1924											
U. S. Govt. Initiative	—	—	—	3	1	1	—	—	—	—	5
Company Initiative	8	7	11	30	68	26	15	34	7	1	207
Total	8	7	11	33	69	27	15	34	7	1	212

a Numbers represent companies and not plants. Some companies have many plants and many works councils.
b 37 by Maryland Agreement.

The foregoing comparative analysis shows that the growth of the movement has been rapid and continuous, but that it has had its greatest impetus immediately following the war, due, of course, to the precedents established by U. S. Government agencies, and to the widespread interest in the Whitley Committee Reports in Great Britain. By the year 1924, the conditions as to source of origin of the various plans had been completely reversed as contrasted with 1919. In 1919, works councils originating under government initiative predominated, while in 1924, out of 212 in operation, only 5 traced their origin to government action. Only 7 out of the total of 212 in 1924, or less than 2 per cent, had been inaugurated prior to the war.

Distribution by Types of Plans

Another valuable insight into the movement is shown by changes in types of plans. The number and per cent of each type in operation in 1919, 1922, and 1924, as shown by the Conference Board Report, are compared in the following table:

DISTRIBUTION OF WORKS COUNCILS BY DATE OF ORGANIZATION AND TYPE OF PLAN *a*

Type	Total	Per Cent
Active in 1919		
Committee	132	87.0
Employee Associations	9	6.4
Industrial Democracy	10	6.6
Total	151	—
Active in 1922		
Committee	184	76.7
Employee Associations	13	5.4
Industrial Democracy	43	17.9
Total	240	—
Active in 1924		
Committee	148	69.8
Employee Associations	37	17.4
Industrial Democracy	27	12.8
Total	212	—

a Numbers represent companies and not plants. Some companies have many plants and many works councils.

The committee system of employee representation, it will be noted, has remained dominant in numbers since 1919, but has relatively declined, while employee associations and the so-called industrial democracy types introduced by John Leitch have relatively increased. This so-called industrial democracy had its greatest popularity in 1922, but has since been abandoned in many establishments. In June, 1924, this type composed 17.9 per cent of the total plans existing as compared with only 12.8 per cent in 1924. It has been called the American Plan because in its various manifestations it has been modeled after the United States Government, having a house of representatives composed of employee representatives, a senate constituted of fore-

men, and a cabinet made up of officials of the company. It varies according to different conditions. Unlike our political constitution, the house, or employee representatives, cannot act over the veto of the executive by a two-thirds vote.[7]

Movement to Have Employees Acquire Stock in Corporations

Along with the movement of employee representation has proceeded an effort to stimulate wage-earners and other employees to acquire stock in the corporations for which they work. This policy was designed in some instances to develop the spirit of loyalty and cooperation of employees and their interest in the establishment. In other cases, it goes farther and seeks to have the employees take a direct part in the control and management of industrial undertakings.

The methods adopted by corporations in putting this policy into effect varied greatly according to the objects had in mind. In some cases, companies appropriated a part of their net earnings for this purpose, and for every dollar invested by employees in stock the company would contribute a like amount. In other cases, stock was offered at less than market prices or premiums were given to employees who steadily maintained payments on stock purchased on an instalment basis. In other plans,

[7] For a brief analysis of types and forms of different representative systems see Watkins, "An Introduction to the Study of Labor Problems" (contra cited)—Chapter XIX.

stock-acquisition by employees was made a feature of profit-sharing or bonus systems, employees being required, or given the option of investing their share in earnings in stock of the corporation. A few corporations, in their attempts to enlist the support and obtain the cooperation of their workers, made special provision in their plans, irrespective of stock ownership, to permit employees to elect a representative on the board of directors.[8]

Ordinary Systems of Profit-Sharing Ineffective and Declining

Outright systems of profit-sharing have been a failure, both in this country and abroad. This method of pure profit-sharing, as contrasted with individual bonus payments or special gifts of cash or stock, has been correctly defined by the International Congress on Profit-Sharing, held in Paris in 1889, as "the agreement, freely entered into, by which the employees receive a share, fixed in advance, of the profits."

Prior to the World War, the idea of profit-sharing was scarcely heard of in this country as a remedy for industrial unrest or as a solution of the labor problem. It had its origin in France, which of all modern countries has had abundant opportunity for experimentation. In 1889 there were 120

[8] The details of the typical plans which have been established are set forth in the next chapter.

See Appendix B for an analysis of representative plans for acquisition of corporation securities by employees.

firms practising profit-sharing in France, in 1893 there were 126, and in 1901 only 88 such firms. Profit-sharing legislation passed in 1915, 1917, and 1919 had some stimulating influence on the growth of the movement. An investigation in 1920 covered 328 out of the total of 475 firms practising profit-sharing. Of these only 168 plans were voluntarily instituted—that is, without pressure from the compulsory profit-sharing legislation mentioned—and of these 168, 93 were not pure profit-sharing schemes. The number of pure, voluntary profit-sharing schemes in France in 1920 was about 75, and of these one-third have arisen since 1919. Profit-sharing has therefore declined in France over a period of thirty years, notwithstanding all that has been done for the encouragement of the movement by legislative action.[9]

In Great Britain, profit-sharing made its appearance about the year 1880, and since that time the British Ministry of Labour has made reports annually on the progress of the movement. The table on the next page shows its growth and decline during the period 1880-1923.

At the close of 1924[10] the total number of firms had diminished to 225. These covered about 340,000 employees, of whom about 172,000 were eligible. The number of firms in each industry practising profit-sharing was very small, the largest percentage being in the gas industry. Other industries repre-

[9] International Labor Review, March, 1924, p. 398.
[10] *Monthly Labor Review*, September, 1925, p. 173.

PROFIT-SHARING SCHEMES, STARTED, DISCONTINUED AND IN OPERATION FROM 1880-1923 IN GREAT BRITAIN AND IN NORTHERN IRELAND *a*

Period in Which Scheme Was Started	Total Schemes Started	Schemes Discontinued by End of 1923	Schemes Suspended by End of 1923	Schemes in Operation at End of 1923
Up to 1800	35	29		6
1800-1890	79	67	1	11
1894-1900	76	63		13
1901-1905	26	19		7
1906-1910	54	21	1	32
1911-1915	63	20	2	41
1916-1918	22	5		17
1919-1920	101	15	2	84
1921-1922	20		1	19
1923	8			8
Total	484	239	7	238

a Monthly Labor Review, Nov. 1924, p. 241.

sented by the report were Public Utilities, 88; Engineering and Shipbuilding, 33; Merchants, 33; and in the textile industry there were 24 firms.

In the United States profit-sharing is a recent post-war experiment. A survey made in 1896 [11] showed only fifty plans had been started in the country, and of these thirty-three had been permanently abandoned, five had been discontinued indefinitely, and only twelve were in actual operation. In 1899 a few more firms had adopted profit-sharing and in 1916 a report made by the Department of Labor [12] showed about sixty schemes in operation, forty of which had been operating less than ten years. In 1923, there were perhaps upwards of one

[11] Bloomfield, Daniel and Meyer: "Financial Incentives for Employes and Executives," Vol. II, p. 58.

[12] U. S. Bureau of Labor Statistics, Bulletin 208, by Boris Emmet.

hundred pure profit-sharing schemes in the United States.

In 1920, the National Industrial Conference Board [13] made an investigation and report on the subject, which included data obtained from 91 cases of profit-sharing plans, but of these only 49 were true profit-sharing, the others being wage bonuses, share in gross receipts and various other types. The large percentage of abandonments continued, and the evidence seemed to show, therefore, that in 1920, after thirty years of trial, the movement had not permanently grown, except for the temporary stimulus it received immediately after the war.

More than half of the discontinued plans reported by the National Industrial Conference Board were caused by the general indifference of the workers. It was reported that the workers felt that profit-sharing was something handed down to them, and having been instituted without their consent or consultation, that it savored of paternalism and suspicion. As a result, employers were not able to secure the hoped-for improvements they expected from the employees. They stated that it did not satisfy wage-earners, quell their unrest, or improve their efficiency. The quality and quantity of the production of industrial workers showed no increase, neither was there any appreciable diminution in the matter of wasted material and time. In short, practically

[13] National Industrial Conference Board, "Practical Experience with Profit Sharing in Industrial Establishments," Research Report No. 29, June, 1920, p. 21.

all the employers who had failed pointed out the inability of the rank and file of the workers to grasp the meaning and significance attached to profit-sharing.

Because the employee had no voice in the management of the concern, he, as a rule, mistrusted, it was found out, the information received as to the nature and extent of the profits. The reason for this mistrust is natural enough, says Mr. W. O. Lichtner, in the National Civic Federation report.[14] Employees do not understand, he said, cost accounting systems, and rarely if ever are they permitted collectively to engage their own accountant and examine the firm's books. They are easily led to believe that accounts can be juggled to suit the management, over which they can exercise no control. Furthermore, the profits, if any, are the result of many more business elements than the labor of the workers. In addition to labor costs, there are other important items, such as machinery, materials, buying, advertising, selling, bad accounts, efficiency of directors, etc., over which the worker has no power, so that no matter how his own productive efforts are advanced, profits can be very materially affected. The worker therefore sees no reason for speeding up his own labors, so long as this can be offset by the inefficient and the shiftless, concerning which he has no voice.

Another cause of failure given by manufacturers resulted from the separation of the workers and the

[14] National Civic Federation, Report on Profit Sharing, 1920, p. 354.

management. Many plans were suddenly stopped because a particular employer died, and the business was sold, or a new management was instituted and the previous policies abandoned, or, again, the business losses were so great that dissolution of the firm was imminent. In all cases the particular form of profit-sharing was doomed to the same fate as the management, over which the workers had no control. Moreover, profit-sharing did not reduce labor turnover or avert labor troubles, or strikes, and for these reasons many manufacturers abandoned their schemes.

Because of the above-mentioned causes, manufacturers have claimed their total disappointment with the alleged advantages of profit-sharing. On the other hand, it was constantly opposed by organized labor, which claimed that it was designed to wean employees away from their unions, and to check aggressive tactics for the advancement of wages and the improvement of working conditions.[15] At the present time, therefore, conventional profit-sharing is a negligible factor, and it is only when joined with plans of democratic reform in industry that it becomes significant.

Analysis of Typical Plans Necessary

Before passing judgment upon this extensive and recent movement in American industry, which has

[15] See in addition to Civic Federation Report of 1920, which is very comprehensive, article in *Harvard Law Review*, by Calvert Magruder, June, 1922; "Wages and Profit-sharing," R. W. Gilchrist, 1924, p. 216.

for its avowed objects the development of co-operation between employers and employees and the democratization of industry, it is necessary to know how the different projects are organized, their methods of procedure, and their practical operation and achievements. With this picture in mind, it will then be possible to test the various plans which have been put into effect in the light of the fundamental principles, the acceptance of which is essential to industrial justice and democracy.

V

OUTSTANDING AND REPRESENTATIVE ATTEMPTS TOWARDS EMPLOYEE REPRESENTATION AND INDUSTRIAL DEMOCRACY

Although all the employee representation plans in effect practically have common purposes and objects, they differ from each other greatly in form and comprehensiveness. Some provide for a simple form of collective bargaining between employers and employees on a shop committee basis. Others, especially in larger undertakings, extend the machinery of joint-action to the various departments, and culminate in plant committees usually designated as works councils of employees and joint-works councils of both employers and employees. Where a considerable number of plants or industrial units are integrated into one corporation, as in the case of the International Harvester Company, the Standard Oil Company of New Jersey, the Colorado Fuel and Iron Company, and others, interplant councils, committees, or conferences may be provided for composed of joint representation of employers and employees from the different units, the object of such committees being to pass upon matters affecting one or more units. Variations in the machinery for the adjustment of grievances is also

important as showing whether the final decision is made by the representatives of the company, by joint-action, or by arbitration.

What is of the greatest significance, however, is the scope and objects of a few of these plans now being tried out as compared with the great majority. In addition to old-age pensions, health, accident, and life insurance, and other employee welfare features, some plans provide for employees acquiring stock and ultimately controlling the industries, others have voluntarily given employees representation on boards of directors, while one or two have already under certain restrictions turned over the control of the corporations to the working forces. Some plans also give to employees of all classes a direct participation in profits, or, in the results of economies and efficiencies, in the form of cash payments or stock. Other companies practically divide net profits with employees, and, in two or three exceptional cases, large manufacturing concerns turn over to their employees all profits after the payment of fixed charges on the capital invested.

In order that a comprehensive picture of the existing situation may be available as a basis of subsequent judgment, detailed analyses of a number of outstanding and typical plans are set forth below. These representative as well as exceptional types will give a clear understanding of the movement in all its aspects.[1]

[1] The most comprehensive studies available of employee representative plans in all their aspects are "The Shop Committee in the United

1. Standard Oil Company of New Jersey

The plan in operation by this company falls into three main divisions, the first having no relation, it is stated, to either of the other two: (1) Industrial Representation Plan, (2) Stock Acquisition Plan, and (3) Annuities and Benefits Plan. The Industrial Representation Plan was adopted in March, 1918, at the instance of the President of the Company in Bayonne, Bayway, and Eagle Works refineries, and was afterwards extended, with slight modifications, to other refineries and subsidiary companies.

A. *Employee Representation Plan*

I. Organization and Procedure

1. *System*

a. Representation by Districts or Divisions. All of the elected representatives form a Works Joint Conference and departments. In larger plants, Executive Council selected from Joint Conference to expedite matters. Also inter-refinery meetings of contiguous New Jersey refineries which are largely recreational.

b. The usual basis of representation is one elected representative for each 50 to 150 employees, according to the size of the plant, with at least 2 representatives in each division.

c. Elections are secret, according to Australian Ballot.

States," by Carroll E. French, Johns Hopkins Press, Baltimore, 1923; "Workmen's Representation in Industrial Government," by Earl J. Miller; and "Employee Representation," by Ernest Richmond Burton, Williams and Wilkins, Baltimore, 1926.

d. Administration of plan is centered in a Personnel Department, which is responsible to the General Superintendent of the Works, and has charge of the administration of all personnel and industrial relations problems.

2. *Procedure*

a. Grievances handled by employee representatives from local divisions up to Joint Conference, and appeals may be taken to general operating officers or Board of Directors. The Board of Directors acts as the final authority in cases of disagreements.

b. Wage adjustments are made by Division Conferences, subject to the approval of the Board of Directors, but the conferences may involve as many divisions as are concerned. In the case of wage discussions for the entire plant, the Joint Conference is the body concerned.

c. Joint Conferences of company and employee representatives are held at each plant at least quarterly. Executive Councils meet more frequently. Division Conferences meet whenever there is need for them. Representatives from the three New Jersey refineries meet together annually at a dinner, because they are all in the same locality.

d. Special joint committees may be formed to handle special topics, such as Health and Sanitation, etc.

e. Employee representatives neither gain nor lose money as a result of doing work in connection with the Industrial Representation Plan.

f. There is no employees' organization connected with the Industrial Representation Plan.

II. Principles Upon Which Company Declares System Proceeds

1. "No discrimination by the Company or its employees against any employee on account of membership or non-membership in any church, society, fraternity or union."
2. "Paying at least the prevailing scale of wages for similar work in the community."
3. "Eight hour day, or its equivalent. One day's rest in seven, preferably on Sunday, or the equivalent of such period."
4. "One week's annual vacation *with pay* after one year's service, extended to two weeks after five years' service, etc."

III. Reasons for Plan as Set Forth by Company

"The main purpose of the Plan, which has been in effect since 1918, is to provide a means of contact between the management and every employee and regular opportunities for collective action by representatives of the employees and of the management on all matters of mutual interest. The Directors of the Company believed that a system which would create an opportunity for the honest expression and fair consideration of the views of all and which would send men to their work with the consciousness that so long as the industry flourished their interests were safeguarded, must in the long run bring results in efficiency, cooperation, harmony and mutual profit, and promote justice to employees, officials and stockholders."

B. *Stock Acquisition Plan*

I. Employees contribute to a fund (by assigning not more than 10 per cent of their wages), and company contributes 50 cents for each dollar contributed by

employees. Employees' contributions are deducted from pay-roll, on individual assignments.

II. The stock acquisition period covers three (3) years ending December 31, 1928. Fund accumulates interest and dividends on stock purchased. Also at end, the final list participates in Company payments, and payments left by those who withdrew during the period.

Previous acquisition period was 5 years and 900,000 shares of stock were bought. Any employee, other than a Director, can participate.

Any employee, who participated in first allotment, must retain ¾ of stock received to qualify him to participate in present acquisition plan. Should he sell the stock he would be ineligible for a period of one year only.

III. Fund is administered by Trustees (three Directors) appointed by the Full Board.

IV. Employees may voluntarily, or if discharged, or ill, withdraw, but if they do so, only receive what they actually contributed plus six per cent. In the event of death, beneficiaries receive what was contributed, plus company's contribution and all other accruals. Employees laid off through no fault of their own, or pensioned, also receive what was contributed plus the Company's contribution and all other accruals.

V. Only charge made against the Fund by the Trustees is for taxes.

C. *Life Insurance, Sick Benefits, Annuities or Pensions*

I. Annuities or Pensions

All men of 65 and women of 55, 20 years or longer in the service, are eligible for retirement on a pension at the cost of the Company. Others may be retired at the request of employees or at discretion of Board.

II. Life Insurance or Death Benefits

1. Eligibles: All employees of one year's service, including future annuitants.
2. Cost: None to employee. Entirely paid by Company.
3. Amount: Minimum of $500; maximum of $2,000. Actual determination one to twelve months' full-pay, according to period of service at time of death.
4. Payments: At least $150 in cash to cover funeral expenses; balance in 12 monthly or other number of instalments, as may be arranged.

III. Sick Benefits

1. Eligibles: One year's service, and 13 consecutive weeks preceding illness.
2. Cost: Company entirely; none to employee.
3. Amount: After 7 days' illness, half-wages, paid regularly, for 6 to 52 weeks, according to term of service of employee, periods ranging from 1 year to 10 years. If total disability results from illness, 26 weeks' allowance added. Special cases, as tuberculosis, receive special consideration.

IV. Reasons Expressed by Company as to Annuities, Death and Sick Benefits

"No relation whatsoever to the amount of wages or salaries paid . . . but are granted as a voluntary reward for and appreciation of faithful and efficient service, and as an incentive to further service, applicable to all employees, including officers, on equal terms."

2. The International Harvester and Subsidiary Companies

In 1919 a strike occurred at the International Harvester Company, when 10,000 employees

stopped work without formulating any demands. Another walkout also occurred in one of the plants of the Company where a shop committee had been established. This committee, in addition to its usual functions, was asked by the management to handle the matter of the strike—whether the other plants of the Company should be closed, when they should be reopened, and similar questions. The employee representation or industrial council plan was later adopted in 17 out of 20 plants, and finally extended to all but one. It was proposed by the Company and adopted by a vote of the employees on March 10, 1919.

The President of the Company, Mr. Cyrus McCormick, Jr., in an address before the American Management Association on November 30, 1925, declared that its inauguration marked the beginning of the final step towards "the democratization of industry."

A. *Employee Representation Plan*

I. Works Council

a. Composed of equal number of representatives of employees and management:

1. Employee representation to be on basis of one for each 200 or 300 employees; in no case, less than 5 employee representatives.
2. Each plant divided into Voting Divisions, as basis of representation.
3. Qualification for a Representative; 21 years, U. S. citizen, one year's employment.
4. Nominations and elections are by secret ballot.

5. All employees (except foreman), both men and women, entitled to vote.
6. "Deputy Representatives," appointed to assist regular representatives, also provided for.
7. Manager of Department of Industrial Relations is Chairman of Works Council, and Secretary is appointed by the Superintendent of the Works. Vice-Chairman, either employer or employee, is elected by Works Council.
8. Works Council may appoint joint sub-committees to take up special matters.
9. Meeting place provided at Company expense, and employee representatives paid by the Company for time in attending meetings or attending duties arising therefrom.

II. Department of Industrial Relations

Created by the Company to carry out this and other labor policies. Administrative control centers in this department.

III. Powers of Work Councils

a. Its duty is to consider and *make recommendations* to management on all questions relating to working conditions, safety, health, wages, hours of labor, recreation, education, etc.

b. May on its *own motion* investigate other matters of *mutual interest* and make recommendations to management.

IV. Procedure of Works Council

a. Employee first presents any matter through regular channels to the Superintendent.

b. If action is not satisfactory, he may take it to Works Council in person, or through the Secretary of Council in written form. Any employee, or employees, may appear personally before the Works Council, and present their case. Works

Council may call any other employee to testify, or may make its own investigation.

c. Vote of Works Council is secret, employees and management groups voting separately. Majority determines full vote of each unit.

d. Either management or employee group may withdraw to consider a matter separately.

e. After a decision is reached, it is transmitted to the Superintendent for execution; if he considers the matter of sufficient importance, he may refer it to the President of the Company, who may approve or disapprove; if President disapproves the matter *is arbitrated.* President may, however, if the matter is of general importance to all plants, call a General Council of plants affected for its consideration. If this inter-plant council approves, the matter is put into effect; if its vote is a tie, it is arbitrated.

f. In the case of a tie vote in the Works Council, either side may ask its reference to the President; he may suggest a plan of settlement, refer the matter to a General Council, or, if the settlement proposed is not satisfactory to employee representatives, it is arbitrated.

V. General Council

a. To be called by the President when he deems more than one plant is interested in a matter. Employee representatives at each Works Council designated shall select 2 or more delegates (one for each 1000 employees). Equal number of management representatives. President, or some one designated by him, presides, without vote; all expenses of meeting paid by the Company.

b. Procedure same as in Works Councils.

c. If General Council cannot agree, or there is a tie

vote, matters in dispute are submitted to arbitration.

VI. Arbitration Machinery

a. Arbitrator mutually agreed upon, or,

b. If unable to agree, President selects one arbitrator, employee representatives another, and these two, a third.

c. Arbitration decisions binding and may be made retroactive.

VII. Guarantees

a. Against discrimination or coercion of employee representative by representatives of Company.

b. Against discrimination by Company because of membership in trade-union or other organization.

(In both *a.* and *b.* above appeal may be made to the President, and, if his decision is not satisfactory, employee has the right to arbitration.)

VIII. Termination of Plan

May be terminated by either party on 6 months' notice.

B. *Employee Stock Subscription Plans*

I. Any employee may purchase Investment Certificates which are convertible into 7 per cent Cumulative Preferred Stock of the Company at a stipulated price. A special dividend of $2 per share for 5 years is offered to stimulate retention of the stock. Purchaser at any time may apply his investment certificate toward buying a home, or any other approved security.

II. Company now has 22,500 subscriptions in force for $15,000,000 in stock. Percentage of employee subscribers to total working forces is 58 per cent. In the factories alone about 60 per cent of employees are

stock subscribers, the average holding being about $600. Employees now own about 10 per cent of preferred stock outstanding.

3. Colorado Fuel and Iron Company

This is one of the pioneer plans for employee representation and welfare. It was adopted in October, 1915, at the coal mines of the company after severe labor troubles had been experienced. The principle of the plan was outlined by the Hon. W. L. Mackenzie King, formerly Minister of Labour, and at present the Premier of Canada, and John D. Rockefeller, Jr., and worked out in final detail with the operating officials of the company before being approved by representatives of the employees and management. In May, 1916, the plan was adopted at the steel works of the company, and later, in December, 1921, the two plans were consolidated by a joint conference of employees' representatives of the mines and steel works and management representatives.[2]

A. *System of Collective Bargaining*

I. The individual basis of representation consists of the various mills and mines of the Company.

II. One representative is chosen for each 150 employees or major fraction thereof.

III. Elections

a. Annual, and by secret ballot.

b. Voters—employees with three months' service.

[2] For a detailed study of this plan and its operation see "Employes' Representation in Coal Mines," Selekman and Van Kleeck—Russell Sage Foundation—1924; "Industry and Human Welfare," MacKenzie King; Report of U. S. Commission on Industrial Relations, 1916—Volumes VII, VIII and IX.

c. Candidates—must be 21, American citizens, and have one year's service.
d. Representatives hold office one year.
e. Nominations of representatives are made by employees, by secret ballot.

IV. Joint Conference and Procedure

a. Are held at the call of and presided over by the President of the Company, or his representative.
b. Representation at these conferences is equal as between employees and management.
c. Joint Conferences select permanent Joint Committees on
1. Cooperation, conciliation and wages.
2. Safety and accidents.
3. Sanitation, health and housing.
4. Recreation and education.
d. Each of the Joint-Committees may bring up for discussion matters at Annual Joint Conferences or others, and make reports and recommendations to the President.
e. *Settling Differences or Grievances*

Joint Committees on Cooperation, and Conciliation and Wages, may act independently, with an umpire, agree upon arbitrators, or prefer matter to Colorado Industrial Commission for Arbitration.
f. A grievance may be taken by an employee to foreman, Superintendent, General Manager, President's Industrial Representative, President, and finally Joint-Committee on Conciliation and Wages.

V. Administration of Plan

This is lodged in an Industrial Representative, appointed by the President and paid by the Company.

VI. Advisory Board on Social and Industrial Betterment

This is composed of *officers* of the Company, appointed by President, and is presided over by the Industrial Relations Executive.

VII. Cost of Operation

Employees' representatives when attending Joint Conferences, handling grievances, etc., are *paid by the Company.*

VIII. Specific Guaranties to Employees Plan

a. Protection against discharge except for certain specified reasons.

b. To hold meetings on property of Company, or where they please.

c. To have check-weighman at the mines (State Law).

d. To be free from discrimination because of membership in labor unions.

e. Eight-hour day in mines (State Law).

This company was the first large steel concern in the United States to adopt the actual eight-hour day, which was arranged through joint-conference of representatives of employees and management under the Joint Representation Plan and made effective November 1, 1918.

4. The Pennsylvania Railroad

According to the announcements of the Company, this plan was an outgrowth of the country-wide labor controversies following the return of railroads to private ownership after the war, and

especially of the decision of the Railroad Labor Board in the so-called National Agreements Case. When the Labor Board in 1921 ordered the transportation companies and their employees to meet together to decide upon new rules as to working conditions on the basis of certain enumerated principles, the Company requested and the employees voted for the adoption of a plan of local employee representation suggested by the Company in line with the principle of the Joint-Reviewing Committee system already in effect for its engine and train service employees.

This plan provides for the organization of the employees of the various crafts or classifications of work, or, in other words, for the formation of local and company-wide employee organizations along the same lines as the national railway craft unions. The several craft organizations have different names, as "Association of Shop Craft Employees," "Altoona Works Employees Association," "Miscellaneous Forces Association," "Clerks Association," "The Pennsylvania System's Fraternity for Maintenance of Way Employees," and "Association of Telegraph Department Employees."

A Memorandum of Understanding, or agreement, without specifying any organization name, governs the relations between the Company and its engine and train service crews. This was ratified by representatives of the Company and by the employees (General Chairmen of the "Brotherhoods") representing the engine and train services, on December

29, 1920, or a few months prior to the inauguration of employee representation plans for other groups of workers. There is no inter-craft federation, or, in other words, no association for all employees regardless of occupation.

The fundamentals of the plan for employee representation, as officially announced by the Company, are as follows:

1. An opportunity for all employees to have a voice in the management in matters in which they are directly concerned through employee representatives elected by themselves regardless of whether they are union or non-union members.
2. Establishment of a mutually satisfactory method of promptly settling all controversial questions arising between management and men.
3. Establishment of a joint tribunal for each class of employees equally representative of employees and management, which is the final arbiter in the disposition of industrial disputes.

To provide for prompt disposition of controversial questions, regular monthly meeting dates for each group are set up a year in advance for Local Committees with Superintendents, for General Committees with General Superintendents, and for General Committees with General Manager. Similar regular meeting dates are set up for each of the Reviewing Committees.

In the "joint tribunal" or Reviewing Committee for each group, all members have equal voting power, a two-thirds vote being necessary to decide any issue. The decisions are final, not being subject

to veto by Management. If the Reviewing Committee cannot, by a two-thirds vote, decide any question, it determines how the question shall otherwise be settled. The Committee may name arbitrators or investigators to go further into the matter and return their findings to the Reviewing Committee. (Only six cases in over four years arose which required action beyond the routine procedure of the Reviewing Committees and in every one of these cases the finding of the arbitrators or investigators, or sub-committee of the Reviewing Committee, named by the committees have been adopted by the committees as their decision.)

The plans of organization and procedure for the various occupations are based on these fundamentals, and differ from one another only in unimportant respects. An analysis of the system for the shop employee, which is submitted below, may, therefore, be considered as typical and representative. An outline of the plan for engine and train crew employees is also added as it is a special form of agreement.

PLAN OF EMPLOYEE REPRESENTATION FOR SHOP CRAFTS EMPLOYEES

A. *System of Collective Bargaining*

I. Committees

a. Local

1. Three elected representatives of each craft on each division. Chairman elected by each committee.

2. Meetings called as occasion may demand by Chairman.
3. Division Chairman and Secretary elected by majority of local committeemen in meeting assembled.

b. Regional General Committee

1. Composed of a General Chairman, representing all crafts, and a general craft chairman from each craft; elected for two years; elected by Region Council (one-half each year) from among *local* Chairmen or retiring members of Regional General Committee, or both.

c. Region or System Council

1. Composed of Chairmen of Local Committees in the region. Chairmen and Craft Chairmen, same as Region Council.
2. Stated meetings each two years; other meetings at call of Chairman, or by a majority vote of the Regional General Committee.

II. Procedure for Adjustment of Grievances

a. Division Committee with Division Superintendent.

b. Where interpretation of language of Schedule is involved, a common understanding had is placed in effect and submitted to Regional General Committee and General Manager for review; a disagreement on such subject is submitted to same parties for a decision.

Decision of Superintendent on other questions, including discipline cases, if appeal desired by Division Committee, is referred to Regional General Committee and General Superintendent. If Regional General Committee not satisfied with decision of General Superintendent, appeal is to the General Manager. If dissatisfied with de-

cision of General Manager, appeal is to the Shop Crafts System Reviewing Committee.

c. Final decision by the Shop Crafts System Reviewing Committee by a *Two-thirds Vote,* all members having equal voting power, either bringing about final settlement, or a further step in adjustment by arbitration or other means. *No specific statement as to arbitration.* Paragraph 22 states that if case is not decided at bi-monthly meeting following meeting during which it was first brought up "further procedure will be had as determined upon at the time of such disagreement."

III. Negotiations as to Wages, Working Conditions and New Matters

a. Regional Council through the General Chairman and General Craft Chairman conduct the negotiations with management relative to changes in rates of pay and working conditions.

b. As this Council is composed of Chairmen of Local Committees, general regional changes can thus be inaugurated; also system changes by a system council or convention.

IV. Elections

a. Voters

1. All mechanics, helpers, and apprentices regularly employed and not in a supervisory capacity.
2. *No specific statement* in by-laws relative to non-discrimination against employees for membership in trade-unions, etc. All employees can vote and hold office, irrespective of their individual affiliations and activities. The Company, in its public statements, specifically does state that employees may belong

to union without discrimination, and some committees are composed of union men, in whole or in part.

3. Voting by crafts.

b. Candidates for Committees

1. Must be 21 years old, American citizens, and had 2 years' continuous service.

c. Nominations and Elections

1. Nominations by petition (25 voters or 25 per cent when less than 100 voters).
2. Regional General Committee conducts elections and nominations.

   By secret ballot (ballot box) or secret letter ballot.
3. Candidates receiving the highest number of votes are declared elected.

PLAN OF REPRESENTATION FOR ENGINE AND TRAIN SERVICE EMPLOYEES

A. *Collective Bargaining*

I. No specific mention that representatives of employees shall be regularly employed by Pennsylvania, although this is declared to be the practice.

II. System of Handling Schedule Grievances

a. Local Chairman with Division Superintendent. Where interpretation of language of schedule is involved, a common understanding reached is placed in effect and submitted to Joint Reviewing Committee for review, a disagreement on such subject is referred direct to said Reviewing Committee for decision.

Decisions of Superintendent on all other questions, including discipline cases, if appeal desired by Local Chairman, are referred to General Chairman and General Superintendent. If Gen-

eral Chairman is not satisfied with decision of General Superintendent, appeal is to General Manager. If General Manager's decision not satisfactory to General Chairman, appeal is to Joint Reviewing Committee.

b. Joint-Reviewing Committee

1. Handles schedules and discipline matters entirely.
2. Composed of

   Management—two representatives from each Region.

   Employees—General Chairman of Engine and Train Unions (9).
3. In case of disagreement, Committee decides steps to reach an agreement.

5. Peoples Gas Light and Coke Company, Chicago

This plan is a modification of the original Colorado Plan prepared by the Commercial Bureau of Economics. It was first submitted by the Company in the early part of 1921, to a "constitutional convention," made up of 55 employees and 55 company delegates, and later ratified by a general vote of all the employees on March 10, 1921. The objects of this innovation as set forth in the Company's proposal to the employees were stated as follows:

The general objects are, by this modification of the methods of the management, to promote mutual understanding, justice, and harmony in the cooperation of the employees and the management; to provide for protection and promotion of the interests of the employees as to pay, hours, conditions of work, and all other matters affecting them as

employees; to improve the effectiveness of the management, to foster efficiency and economy; to insure fair returns to the stockholders; and to assure continuous and satisfactory service, at just rates, to the public.

A. *Organization and Procedure*

I. Elected representatives of employees.
II. Appointed representatives of Management.
III. Departmental, Special and General Joint Councils.
IV. Centralized as to administration in a Manager of Industrial Relations and a Dean of Women (for women workers).

B. The plan as published declares there shall be no discriminations against employees because of membership in trade unions.

C. *Welfare Features*

The Company provides without cost sickness, accident, and death benefits and retirement pensions.

6. Southern Railway

This Company has introduced, as a result of an agreement with engine and train service employees, a unique experiment to be tried for the period, February, 1924, to February, 1927. It is based on Productive Efficiency of Engine and Train Crews. Certain items of operating expenses selected and their ratio to total operating revenues are ascertained from experience forming the "Test Ratio" for 1923. If this ratio is not increased in 1924, a bonus of 1½ per cent is to be paid; and, if not increased in 1925-1926, 3 per cent. If the ratio should increase, increase to be deducted from 1½

or 3 per cent, and any remaining balance to be paid as a bonus to employees. The arrangement is a part of the usual service agreement between the Company and its employees.

7. The "B. and O." Plan

This plan of cooperation was adopted by the officials of the Baltimore and Ohio Railroad and representatives of the regular shop craft unions, a short time after the settlement of the strike of shop employees in 1922. It had been planned to make the arrangement earlier, and preliminary conferences had been held, but the strike intervened, and its establishment was delayed. Since its adoption, similar plans have been put into effect on the Chesapeake and Ohio, the Chicago and Northwestern and Canadian National railroads.[3]

The original objects of the plan as set forth in the Memorandum of Agreement between the unions and the management were:

> This program is intended to help the stabilization of employment on the Baltimore and Ohio Railroad, thereby producing a situation of satisfied and contented personnel with improved morale, and consequently improvement in the service and production by greater efficiency and better quality of work.
>
> The welfare of the Baltimore and Ohio Railroad and its employees is dependent on the service which the railroad

[3] For more detailed study of this plan see Bulletin of Taylor Society, February, 1926, Vol. XI, No. 1; *Outlook*, April 14, 1926; *New Republic*, Aug. 4, 1926, p. 298; Address by Daniel Willard, President of Baltimore and Ohio R. R. Co., at Garrett, Ind., Oct. 30, 1924.

renders the public. Improvements in this service and economy in operating and maintenance expenses are greatly promoted by willing cooperation between the railroad management and the voluntary organization of its employees. When the groups responsible for better service and greater efficiency share fairly in the benefits which follow their joint efforts, improvements in the conduct of the railroad are greatly encouraged.

To fully realize from this spirit of cordial understanding and cooperation, the local officers representing the Management and the local representatives of the employees will convene periodically to discuss questions relating to shop operations, output, etc.

Specifically the plan is to have the local shop committees at the points designated below meet with a like number of local officers of the Management for frank discussion of questions relating to the planning and carrying on of work, and at which suggestions and ideas advanced will be given the fullest consideration, having in mind that the specific purpose of these meetings is mutual helpfulness and not one of criticism or fault-finding.

For the purpose of putting the plan into effect, the following joint machinery of cooperation was organized:

A. *Joint Local Cooperative Committees*

a. At each of the car or locomotive shops of system.
b. Meetings bi-weekly.
c. Minutes of the meeting kept and distributed.
d. General topics for discussion:
1. Cooperation between departments.
2. Proper storage and care of material.
3. Distribution of material and fuel.
4. Tool equipment and distribution of hand tools.
5. Grouping of machine tools.

6. Machine operation and crane service.
7. Scheduling work through shops.
8. Classification and handling of freight and passenger car repairs.
9. Methods of making repairs.
10. Methods of handling and disposition of scrap.
11. Inspection of scrap and reclamation of usable material.
12. Conditions of shops and shop grounds.

B. *Joint-System Cooperative Committee*

a. Meetings—each three months.
b. Composition: Staff of the Chief of Motive Power and Equipment, and Executive Board of System Federation of Unions.
c. Functions:
1. To review and revise recommendations of local cooperative committees.
2. To develop more intensive cooperation.

C. *Classes of Employees Included in Plan*

a. Machinists.
b. Boilermakers.
c. Electrical workers.
d. Blacksmiths.
e. Sheet metal workers.
f. Carmen—(Carpenters, painters, tender and truck repairers).
g. Firemen, oilers and shop laborers.

8. Boston Consolidated Gas Company

Beginning in 1907, this Company conducted a system of profit-sharing with its employees and the public based on a similar plan in England. It practically amounted to a "three-cornered partnership."

The price of gas was established at a certain rate, say, 90 cents per M. feet. Dividends were also established upon the stock of the Company and upon selected employees' wages at the same per cent. Then, for every reduction of 5 cents per M. feet in price of gas to the consumer, dividends were increased to stockholders and employees, 1 per cent.

Under this procedure, the price of gas was reduced to 80 cents and dividends advanced to 9 per cent, but during the period of the World War and after, prices of labor and materials advanced so greatly that rates for gas had to be advanced to $1.10 and dividends were reduced to 7 per cent.

In the spring of 1926 the Sliding Scale Act was prohibited by law, but this repeal has not affected the Profit-sharing plan.

As it is now, selected employees have shared in profits in accordance with the plan outlined above from 1907 to date. They are picked from the operating forces by the Board of Directors, the theory being that the possibility of securing profits will promote efficiency and economy. Profit-sharers have averaged about 60 to 65 per cent of total employees.

Profits received by employees are invested in the stock of the Holding Company. Certificates are delivered to employees, but it is understood that they will not be sold without the consent of the Directors. Such violation may result in the penalizing of the employee by dropping him from the list of profit-sharers.

Profit-sharing employees vote by ballot for one of their number to *represent the employees on the Board of Directors of the Holding Company.* The employee so recommended is elected at the regular stockholders' meetings. He has access to all books and accounts and is specially consulted by the Company relative to industrial relations and conditions.

The Company also has the usual pension plan for the retirement of superannuated and incapacitated employees. Minimum annual pension is $360 and maximum $2500.

9. The A. Nash Company, Inc.
("Golden Rule Nash")

From the standpoint of human interest and co-operation, this is one of the most unusual and interesting experiments in operation. This clothing business has grown from small beginnings in 1919 to large proportions entirely out of its own earnings. All surplus earnings have been reinvested, and stock dividends issued. The original capitalization has increased from $60,000 to $3,000,000. The employees own a majority of the stock. Within six years the amount of business done increased from approximately one-half million to more than ten million dollars annually.[5]

[5] For interesting descriptive material about this experiment, see "The Golden Rule in Business," by Arthur Nash, Revell & Company, 1923; "An Industrial Miracle," by Arthur Nash (from lectures at Massachusetts Institute of Technology, 1923), Murray Press, 176

A. *Trade Union Basis of Collective Bargaining*

Until recently there was no system of machinery except popular democracy based on the teachings of the Sermon on the Mount. All matters were discussed and voted on by employees (now about 6000) except credit, banking and factory sites. In the early part of 1926, however, at the request of Mr. Nash, all employees joined the Amalgamated Clothing Workers, and the enterprise is now completely unionized.

As to wages, there is a profit-sharing scheme, which is paid each week—based on results. Stock is paid an agreed-upon dividend, management an agreed-upon fee, and balance, after 50% profits to wage-earners, has been reinvested in the business.

B. *Employees Legally Control Company*

Invested earnings were made the basis of stock-dividends. The last (100 per cent representing $660,000 to Nash) he decided under the Golden Rule he could not accept, and turned over to workers which gave them voting control. They had previously bought stock and also received stock dividends. In the beginning Mr. Nash owned $59,000 out of a total capitalization of $60,000. He now owns less than one-half.

C. *Employees Unionized at Nash's Recommendation*

On February 16, 1926, at Mr. Nash's own urging, all of his employees joined the union, 2500 taking the pledge at one time. The Company entered into a contract with the union for 3 years, covering usual union conditions, including "the creation of a fund for protecting the workers in time of involuntary unemployment and of need arising from other causes."

Newbury Street, Boston; and *New Republic*, March 10, 1926, article entitled "Golden Rule Nash."

10. The Mitten or Philadelphia Rapid Transit Company Plan

The plan was instituted by Mr. T. E. Mitten, when he was requested to rehabilitate the Philadelphia Rapid Transit Company properties in 1911. It was at first decided to operate the plan on a labor union basis—with the Amalgamated Association of Street and Electrical Railway Employees—but owing to factional fights among the employees, this could not be accomplished. The arrangement was, therefore, put into effect by a vote of the employees regardless of their affiliations. Since its inception, the management has indicated its willingness to put the plan on a labor union basis should the employees so decide. In general the plan has been an evolutionary development, divided into the following main periods:[6]

1.—1911-1918

As originally introduced by Mr. T. E. Mitten, it provided for a system of collective bargaining, cooperative activities, and for right of motormen and conductors to receive in wages 22 per cent of gross passenger revenues.

[6] For more detailed data relative to this plan and its operation see, Report of U. S. Commission on Industrial Relations, 1916, Vol. 3, pp. 2731-2816; Proceedings before National War Labor Board, 1918; Proceedings before Public Service Commission of Pennsylvania, Application Docket No. 11,417, 1924.

2.—*1918*

System of collective bargaining revised and sanctioned by National War Labor Board and accepted by agreement of employees and management.

3.—*1922-1925*

Wage-dividend established under which employees received 10 per cent of wages paid from pecuniary gains resulting from cooperative activities of men and management.

4.—*1926*

Wage-dividend abandoned through court order and plan substituted therefor, under which employees received one-half of management fee of 4 per cent of gross revenues, for operating the property. Also plan introduced of adjusting basic wages of employees to changes in costs of living by budgetary studies.

The revision of the Plan in 1926 was completely in charge of Dr. A. A. Mitten, son of Mr. T. E. Mitten, who conceived and worked out with employee committees the changes relative to employees receiving one-half of management fee and regular adjustment of rates of pay to changes in living costs so as to maintain basic real wages unimpaired. These changes were made in conference with representatives of employees and ratified by a vote of the representatives of the men and of management.

In 1926 also, joint-activities were extended into the banking field, by the establishment in Philadelphia of the "Mitten Men and Management Bank and Trust Company" with a capitalization of $1,000,000.

A. *Organization and Procedure for Collective Bargaining*

I. System of Committees

a. *Branch* (65) Two employees and two employers. Employees elected by secret ballot; employers appointed by Company.
Minority representation secured by taking the two employees having the highest number of votes.

b. *Departmental* (5) Representing corresponding number of main divisions of Company's operations. Departmental Committees consist of all branch committeemen (employer and employee) for the Department. Each group (employer and employee) elect Chairman and Vice Chairman.

c. *General Committee*
For entire system.

II. Qualifications of Representatives of Employees

a. Candidates for *Branch Committees* must be regularly assigned to duty, or in the Transportation Department have a regular run, and a continuous service record of *two years.*

b. *Departmental Committees.* Same qualifications as branch, as Departmental Committees are aggregations of Branch committeemen.

c. *General Committees.* Same as Departmental and Branch.

d. No employees eligible for committees who have

power to discipline, discharge, or direct other employees, such as foremen, etc., or who, in any way, may be said to represent the Company.

e. All committeemen serve one year.

III. Elections

a. Qualifications for Voting

Six months in service of Company, and absence of any official duties of any character with Company.

IV. Election Methods

a. Branch Committees

1. Notice of Branch Committee elections posted 21 days in advance.
2. Candidates are required to file nominating petitions 13 days in advance of election signed by at least 7 voters.
3. Election under supervision of three employees, chosen by and from the respective Departmental Committee of employees.
4. Day of election and period of opening of polls posted in advance, to insure every employee an opportunity to vote.
5. Ballot secret and personal voting.
6. List of all qualified voters posted at polls for 3 days prior to election.
7. Ballots cast together with the official return of Election Committee forwarded to Secretary of Committees and become a part of the permanent records.
8. Vacancies filled by special elections or appointments.

b. Departmental and General Committees

Election for Departmental and General Committee is by secret ballot from separate caucuses of each group.

V. Secretary of Committees

Secretary together with necessary assistants:

a. Keeps permanent records of branch, departmental and general committees.

b. Acts as impartial presiding officer, without vote, at meetings of Departmental and General Committees sitting between the Chairmen for employers and employees.

c. Appointed and paid by management. (Also Secretary of Cooperative Associations.)

VI. Pay of Committeemen

a. *Employees.* Paid by Cooperative Association at regular rates of compensation.

b. *Employers.* Receive their usual pay from Company.

c. In event of arbitration, each side pays its own arbitrators and divides the compensation and expenses of neutral arbitrators.

VII. Procedure Under Committees

a. *Meetings*

1. *Branch Committees* meet when and where occasion demands. Once in 3 months, meeting of all workers at each branch may be held to hear reports from Committee.
2. *Departmental.* Regularly, each alternate month, during year. Special, at the call of the Chairman of either committee, the Secretary for the Committees, or on written petition of 5 members.
3. *General Committees.* Regularly, each month; at call of Secretary of Committee; call of Chairman of either branch; or written petition of 4 members.

b. *Quorum* (Departmental and General Committees).

Presence of at least two-thirds of each group.

c. *Action*

Majority vote of employer and employee group required, each sitting in separate caucus. No joint vote can be taken. Each group may retire after discussion, vote secretly, return ballots unopened, to be counted by Secretary of Committees.

VIII. Powers and Jurisdiction of Committees

a. *Wages*

1. Fixed basic rate first established by General Committee.
2. Changes in basic rate to be made thereafter in accordance with purchasing power of dollar. Bureau established under General Committee to keep track of purchasing power, by budgetary and price studies.
3. Changes to be made at the first of each year provided there has been a variation of 5 points in cost of living index; more frequently, if there are sudden fluctuations to the extent of 10 points.
4. *Supplementary Cooperative Wage*—based on employees' participation in management fee to extent of 50 per cent or one-half. Each employee is credited according to relation his earnings bear to total pay-roll.
5. Management fee of 4 per cent of gross revenues of Company is paid cumulatively after earning regular dividend for common stockholders, and other fixed charges, as a result of economies and efficiencies arising from cooperative effort.

b. Working Conditions

Subject to consideration by Branch Committees with right of appeal to Departmental and General Committees.

c. Discipline, Discharge, etc.

Appeals may be carried to Departmental and General Committees.

d. General Committee

In addition to usual functions of collective bargaining, it shall:

1. Devise ways and methods to further the work of Departmental Committees to the greatest good, and submit plans to Departmental Committees.
2. Promote harmony and cooperative effort among all employees and between management and employees.
3. Render every assistance within their power, to advance welfare of employees and to improve service of Company.
4. By majority vote review, modify, or reverse decisions and findings of Departmental Committees.

IX. *Arbitration*

In the event that General Committee cannot decide a question, it is referred to an arbitration board, composed of:

a. One Employee representative.

b. One Company representative.

c. One neutral representative, selected by (*a*) and (*b*) above, or if they fail to agree, automotically the Chairman of the Public Service Commission of Pennsylvania, or his designated representative, becomes the neutral arbitrator.

X. *Discrimination*

There shall be no discrimination against an employee who:

a. Does not become a member of the Cooperative Association.

b. May elect to join any trade-union or other form of organization.

c. Company has continuously stated since 1911 that employees may deal with the Company on a trade-union basis if two-thirds so decide.

B. *Cooperative Association*

a. Membership

All employees between ages of 16 and 45 years and 6 months who have had continuous service for six months.

b. Dues

1. $1.50 per month per member.
2. Equivalent amount paid by Company, with a minimum guaranty of $10,000 per month.

c. Privileges

1. *Life Insurance*—$1000 (or, if total disability before 60 years, the insured shall receive $1000 in monthly or yearly instalments).
2. *Sick Benefits.* $1.50 per day for a maximum period of 100 days in any consecutive twelve months.
3. *Pensions.* $40.00 per month, after 65 years of age and 25 years of service, and no longer able to continue at his job.
4. *Saving Fund.* (Under Trustees elected by employees.)
   Optional; now 10,000 depositors, with deposits of $2,600,000.
5. *Helping Hand Fund.* For emergency help.

Derives its income from proceeds of an annual picnic and entertainments of employees.

d. Administration of Association

1. General Committee elected for collective bargaining is designated for this purpose as Cooperative Council.
2. President and Vice President elected by plurality vote of members.
3. Secretary and Assistant Secretary are appointed by management (also act as Secretaries of Committees), with approval of Cooperative Council. Also Treasurer and Assistant Treasurer of Association.
4. Cooperative Council acts as Trustee of Insurance funds, and authorizes the expenditure of all moneys, including sick benefits; and passes upon merits of issuance of insurance certificates and pensions.

e. Employee Stock Ownership

1. Increased wage resulting from cooperative effort during period 1922-1925 (not exceeding 10 per cent of annual earnings) invested in Company common stock.

   Beginning with 1926, the management fee, for operating the property, has been divided on a 50-50 basis with labor, which has invested its share in the common stock of the Company. Employees now own more than one-third of the $30,000,000 common stock of the P. R. T. Extent of this ownership growing from year to year. Employees during past year have also acquired preferred stock.

f. Patron Stock Ownership and Selling of Securities by Employees

New securities (both preferred stock and underlying bonds) are now offered directly to car-

riders by employees on cars, or by application at Company terminals.

40,000 car-riders bought preferred stock during past year.

Public and car-riders oversubscribed $13,000,000 in preferred stock (7 per cent) in a short time during past year; also underlying bond issue at 5½ per cent of $750,000 was sold by same methods.

Preferred stock was sold to employees and car-riders on a partial payment plan of $1.00 per week per share, each individual's right to subscribe being limited to 20 shares.

C. *Representation on Board of Directors*

Through stock ownership employees have a representation of two directors on Board of Directors of the Company. As a whole they own and control the largest block of common stock (more than one-third of total number of shares.)

D. *The Mitten Men and Management Bank and Trust Company*

Recently "Mitten Men and Management" have entered the field of conventional banking. The Producers and Consumers Bank of Philadelphia, which had been organized and conducted under the auspices of the labor unions of that city, early in 1926 was forced into a receivership with heavy losses to depositors and stockholders, who were largely local unions or individual members of local labor organizations. In behalf of the Management and Cooperative Association of the Philadelphia Rapid Transit Company, Mr. Mitten proposed to the receivers of the bank to take over its resources and liabilities under a plan which would prevent any loss to former depositors and stockholders. This generous proposal was

only accepted in part, because of prejudice and misunderstandings by the trade union membership connected with the insolvent bank,[7] but, nevertheless, it was taken over by Mitten Management and the employees of the Philadelphia Rapid Transit Company, and absorbed by a new institution, "The Mitten Men and Management Bank and Trust Company." This new institution has a capital of $1,000,000, one-half of which is owned by the employees of the Philadelphia Rapid Transit Company, for which they subscribed collectively through their Pension Reserve Fund, and the other half by Mitten Management. The employees of the bank have not as yet been organized into separate cooperative association along the lines of the Mitten plan on the Philadelphia Rapid Transit Company, but this matter is to be taken up when the new bank is well organized and under way.

11. Louisville Railway Company

This is a modification and adaptation in a restricted way of the Mitten Plan. An innovation made by the Company consisted in allowing a representative of the employees to sit on the Board of Directors. The President of the Company describes this procedure and its object as follows:

At the annual meeting of the stockholders of this Company the latter part of 1921, the members of the Cooperative Association were invited to elect one of their general committee-

[7] The Central Labor Union of Philadelphia passed a resolution opposing the proposal because of erroneous notion that the Mitten plan was anti-union. A reply denying the charge and stating that Mr. Mitten was not opposed to unions, that many of the employees of the Philadelphia Rapid Transit Company were members of unions, and they were all free to join unions, was passed and published by the General Committee of the Philadelphia Rapid Transit Cooperative Association.

men to a position on the Board of Directors of the Company. While this was an innovation at that time, and so far as we know had never been done by any railway company, we were of the opinion that the presence of one of the employees on the Board of Directors would be of great assistance in keeping the employees advised on matters of operation and policy, and that we also would receive valuable suggestions through this medium—just as they come to the operating officials of the Company through the general committee of the association.

This election was held on February 8, 1922, and resulted in the election of the Way Department representative on the general committee. He was elected a member of the Board of Directors at the annual meeting on February 15, 1922, and reelected at the annual meeting in 1923. The annual meeting in 1924 resulted in the election of one of our conductors to represent the employees on the directorate and the annual meeting held in February, 1925, resulted in the election of one of our motor coach operators. Early in February, 1926, one of our motormen was elected to represent the employees on our Board of Directors.

EMPLOYEE REPRESENTATION IN THE LOUISVILLE RAILWAY COMPANY

I. *System of Representation:*

A. Committees

a. Local

1. Committees elected at each car house and power station, called No. 1 men.
2. Number of men on committee not stated.

b. Departmental Committees

1. Composed of No. 1 committeemen.
2. There are five departmental committees.
3. Committeemen take care of welfare of employees under each department.

c. General Committee

1. Composed of one man from each departmental committee and a sixth man representing all the employees of three railroads of the Company. The executives and stockholders are also represented on this committee by six men.
2. Serves as a link between employees and stockholders.

d. Board of Directors

1. One of the general committeemen elected to membership on the Board of Directors, annually.

B. Procedure for Adjustment of Grievances

a. Not stated.

b. Final decision on important questions affecting both men and the company rests with the General Committee.

C. Negotiations as to Wages

a. Method not stated.

b. Final decision of all such questions rests with General Committee.

D. Elections

a. Voters. Membership in *The Cooperative Association of Employees.*

1. Consists of 88 per cent of all employees.
2. All employees are eligible but no effort is made to secure members where heavy labor turnover is inevitable.
3. Limited to employees who are not older than 45 years of age—because of the life insurance clause in the association.
4. No statement as to exclusion of union men from the association.

b. Nominations and Elections.

1. Local committeemen No. 1 elected by secret ballot and are eligible for reelection.

E. *Function of Cooperative Association*

a. Financing of association.

1. Dollar for dollar by members and Company.

b. Provisions of association.

1. Paid executive secretary.
2. Paid visiting nurse to the homes of employees.
3. Insurance Fund.

At death of employee his beneficiary gets 500 dollars—employee receives 50 dollars at death of wife and 25 dollars at death of a child. There is also sick benefit provision.

4. Entertainments.

The employees have organized baseball teams, basket ball teams, bowling teams, minstrel shows, wrestling bouts, outings, etc.

12. Bank of Italy (California)

This plan was adopted by the Board of Directors in October, 1924, and made effective January 1, 1925. Its unusual feature consists in the opportunity extended to employees to acquire the stock of the bank from their own earnings and from appropriations from profits made by the bank for this purpose. During the first year of operation under the plan, employees acquired 3,083 shares of stock valued at $1,387,350. This was done after a certain proportion of employees' participation in profits had been used for pensions, insurance, and other

purposes. Employees' share in profits at the beginning of 1926 equaled more than one-fifth of their annual earnings.

The detailed analysis of the plan is as follows:

A. *Method of Increasing Employees' Compensation.*

I. Employees receiving less than $6,000 per annum.

An amount equal to 5 per cent of the total salary paid from date of employment to the end of the first full calendar year is payable to the employee's account on the completion of the first full calendar year, and would not be placed to his credit if he left prior to that date. Thereafter the amount increases by 1 per cent per annum up to a maximum of 10 per cent, which is reached at the end of the fifth full calendar year and applies to all subsequent service. The amounts contributed by the bank which have just been described are called "Extra Compensation."

II. Employees receiving less than $2,400 per year, with dependent children.

The amount payable as Extra Compensation (as described in I above) is increased for each dependent child by an amount equal to 15 per cent of the Extra Compensation plus an amount equal to 15 per cent of the amount contributed by the employee from his salary (as described in B-I below). The maximum number of dependent children for which an employee may receive dependency credit is three. The amounts contributed by the bank as just described are called "dependency credits."

B. *Cooperative Purchase of Stock by Employees*

I. Employees set aside each six months a certain percentage of their salaries as they may individually

elect, except that the sum of such contributions from their salaries plus their Extra Compensation (A-I above), if Extra Compensation is received, must not exceed a certain maximum which depends on their length of service. This maximum is an amount equal to 10 per cent of their salary for the first full calendar year, increasing at 1 per cent per annum thereafter up to a maximum of 30 per cent. These amounts are called "savings deductions."

II. The bank sets aside 40 per cent of its net earnings each six months to be distributed among employees. The residual portion of this fund, after deducting the funds described under A-I, A-II, C-I and C-II, is pro-rated to each employee in proportion to the total amount standing to his credit from Extra Compensation, dependency credit, or savings (A-I, A-II, B-I). This amount is known as "Special Compensation," and is normally larger than all the other amounts combined.

III. The total of the combined funds A and B is used to purchase Bank of Italy stock, and each employee is credited with the largest number of whole shares which the funds standing to his account will purchase. Amounts exceeding that necessary to purchase one or more whole shares are considered as fractional interests in a share of stock.

IV. Voting Rights

a. Stock held in trust until after the employee has been in the service of the bank for ten years. Voting trust certificates carry all rights which attach to stock certificates except the voting privilege and except that in the event of sale the trustee has the prior option to purchase. Trust certificates mature when the employee for whose

benefit they are issued either has or would have completed twenty years of service. They do not necessarily run ten years from date of issue. Employees or other holders of trust certificates come into full possession of the stock upon the maturity of the trust certificate; that is, twenty years after they were first employed by the Bank of Italy but not necessarily after twenty years of service.

b. If the employee should withdraw from the bank before he receives a trust certificate he is paid what was paid for the stock.

c. Should he retire from ill health, or die, he or his heirs are paid immediately the market value as of the end of the last semi-annual period.

V. Dividends

Cash dividends are paid to employees from time purchase of stock is made.

C. *Welfare Features*

I. Pensions

Pensions are granted employees 65 years or over; no pension to exceed $5000; Pension Fund created and sustained from bank profits (is deducted from 40 per cent of profits allowed employees).

II. Life Insurance

$500 to $1000 according to period of service of from 1 to 5 years; paid for by Bank (deducted from 40 per cent of profits assigned to employees).

III. Vacations

Paid for by Bank—One week over six months but under one year's service by employees: two weeks over one year.

IV. Suggestions by Employees

Committee makes awards according to the value of suggestions to the bank—also special prizes from $100 downwards.

13. The Dennison Manufacturing Company

This business was started in 1844 and for several years it was strictly a family affair. From 1855 to 1878 it was carried forward in the form of a partnership. In the latter year it was incorporated. In 1911 the company was entirely reorganized. All the common stock previously held by investors was changed to non-voting, 8 per cent, cumulative preferred stock. The actual control of the Company was vested in the managerial employees, who reinvested the profits in the business, but received in lieu thereof Managerial Industrial Partnership or Common Stock, which carried the voting rights in the corporation, and which paid cash dividends. In 1919, a system of employee representation and participation in profits was adopted and put into effect the following year through a plan which had been formulated by the employees themselves. This established an industrial council system of representative government, a share in earnings, but no stock-voting rights to employees.

In addition to the arrangements for cooperative and collective bargaining which are outlined below, the employees conduct sick and death benefit associations for both men and women, a credit service, savings funds, and many welfare activities.

A. *Employees' Cooperative Plan*

I. System of Bargaining and Cooperation

a. Voting Units arranged by departmental units as far as possible, or roughly, 50 employees for each voting unit.

b. Qualifications as to Voting and Office-Holding

1. Voter—3 months' service, 18 years of age.
2. Candidate—1 year's service, 21 years of age, American citizen, able to stand literacy test.

c. Elections

1. Held each year on Company's premises.
2. Australian ballot system.

d. Machinery and Procedure

1. *General Works Committee*—Representation from each Department. Meets twice each month.
2. *Central Committee of General Works Committee*—Elected by Committee. No regular meetings. Subject to call of Chairman.
3. *Conference Committee*

Composed of two to six members, equally divided between Management and Works Committees. Conference reports submitted to both Management and General Works Committee for approval. Meet at call of chairman.

4. *Grievances*

In case of grievances discharge, etc., employees have right to appeal to foreman, and can carry appeal through employees' representative to department, section, superintendent and through Central Committee of General Works Committee to the Works

Manager. If a direct settlement with management fails, arbitration may be arranged.

e. Discrimination

1. Absolute independence is assured representatives of employees, and, if any discrimination exists, they can appeal direct to the Central Committee.
2. No discrimination against trade-union or other affiliations.
3. Trade-union agreements already in force not to be superseded by Cooperative Plan.

f. Voting in Conference Committee

Managers and employee representatives vote individually irrespective of affiliations.

g. Suggestions as to Improvements, Economies, etc.

Directly solicited in writing from employees, and rewards paid for those accepted. Boxes are placed throughout the plant to receive the suggestions.

h. Standing Joint-Committee on Cooperation

1. Procedure.
2. Publicity and Education.
3. Hours, Wages, and Promotions.
4. Buildings and Factories.
5. Housing.
6. Unemployment.
7. Cooperative Buying.
8. Health and Safety.
9. Suggestion Committee.

i. Outstanding Accomplishments

1. *Unemployment Insurance*

Administration of a $150,000 fund, given by management, to prevent unemployment, and to compensate regular employees for losses caused thereby.

2. *Housing*
   Administration of a $100,000 fund to improve housing conditions, and to assist employees in purchasing homes.
3. *General*
   Improvement of night work, health, vacations, industrial partnership plan, university extension courses, etc.
4. *Cost of Living*
   Adjustment of rates made in accordance with Cost of Living Reports of Massachusetts Commission on Necessaries of Life in 1920.

j. Employees do not pay any dues to cooperation association

B. *Partnership Plan for Managerial Employees*

I. Conceived in 1911 to eliminate evil of absentee ownership or absentee stockholders, who took no direct interest in management, but engaged in factional quarrels and disputes as the result of absenteeism.

II. Old stockholders were bought out by issuing to them 8 per cent preferred stock in the new company in an amount sufficient to cover the market value of the old stock. All earnings above dividends on this and further issues of stock were to be reinvested in the business and the equivalent in stock to be distributed among the principal employees. This stock is known:

a. As Managerial Industrial Partnership Stock.
b. It has the sole right to elect the Board of Directors. (Voting is by secret ballot.)

III. Managerial Industrial Partners

There are about 400 Managerial Industrial Partners. In case of failure to pay 4 per cent on 1st preferred for one year, or 6 per cent for two years in

succession, their right to name the Board of Directors is temporarily suspended and is exercised by the 1st preferred, while in case of failure to pay the 8 per cent for 4 years successively, their rights are permanently lost to the 1st preferred. The distribution of new Managerial Industrial Partnership Stock each year is made in proportion to salaries.

IV. WAGE EARNERS' INDUSTRIAL PARTNERSHIP PLAN

a. Inaugurated in 1919 by newly created Works Council.

b. Employees of two years' continuous service, prior to year for which distribution is made, are permitted to participate in profits on a point system based on length of service.

c. Receive in the form of Employees' Industrial Partnership Certificates an aggregate of one-third of earnings which would otherwise accrue to Managerial Industrial Partners.

d. Unlike the Managerial, the Employees' Partnership Certificates carry no right to vote for Company Directors. It is considered that employees have sufficient share in the management through Works Council.

V. PARTNERSHIP STOCK AND CERTIFICATES NON-TRANSFERABLE AND NON-NEGOTIABLE EXCEPT TO OR FROM COMPANY

a. Stock or Certificates issued in this form to bind together managerial, supervisory and ordinary employees to the Company so long as they remain with it. Employees cannot dispose of their stock or certificates and hence are anxious to have it earn as much as possible.

b. When employees leave Company it may be ex-

changed for negotiable 2nd preferred stock at relative par value.

c. In event of death, 2nd preferred is given to designated beneficiary for Partnership Stock or Certificates.

d. The Second Preferred Stock, for which Partnership Stock is exchangeable when leaving the Company or at death, is non-voting, but yields 7 per cent. It can be sold for market value or retained for dividends.

VI. Five Years' Service and a high degree of managing ability, creative imagination, or business judgment, are the Prerequisites to Managerial Industrial Partnership, and Three Years for Employee Industrial Partnership.

VII. Liberal Promotion System Permits the advancement of an employee to the Managerial Group.

14. The Dutchess Bleachery, Inc.

While, compared with other industries, this establishment is comparatively small so far as its operating force is concerned, it is one of the largest mills of its kind in the country. It employs about 600 operatives of which approximately 450 are men and 150 women.

The plant has been in existence for about a century. It is located inland from the Hudson River in a small village, Wappingers Falls, about 65 miles from New York City. Up to the year 1918, it was operated by successive managements in the traditional and conventional way. In that year, the Treasurer of the Company conceived the idea of

putting the undertaking on what he termed a partnership basis. An unusual plan was evolved and put into effect on August, 1918.[8] It is analyzed in detail below:

A. *Partnership Plan*

I. Board of Operatives

a. One from each of the 10 departments.

b. Candidates must have been on pay-roll one year, able to read or write English, 21 years old, American citizens or have first papers. Foremen are eligible.

c. Monthly meetings in evening. Fee of two dollars per meeting, from budget, submitted by Board of Operatives, and approved by Board of Directors of the corporation.

d. *Functions.*

1. To handle grievances for employees.
2. To manage Company houses.
3. To direct educational and recreational activities.
4. Nominates one member of Board of Directors.
5. Elects six members to Board of Management.

e. *Finances.*

1. Handled through a budget and Company appropriation.

f. *Executive Secretary.*

Recommended by Board of Managers and confirmed by Board of Operatives. Paid salary by Company.

[8] For a special study of the origin and development of the plan, see "Sharing Management with the Workers," by Ben M. Selekman, Industrial Relation Series, Russell Sage Foundation—New York, 1924; Also, "Representative Government in Industry," by James Meyers, New York, 1924; and "Working with the Working Woman," Cornelia Stratton Parker, pp. 137-172.

g. Votes and Elections.

Elections by secret ballot, nominations one week previous. All employees who have been on the pay-roll for at least 12 consecutive months previous to election are eligible to vote.

II. Board of Management

a. 12 members—six employers, six employees.
b. Determines wages, working conditions, or any problems which may arise.
c. In event of deadlock, an umpire is chosen.
d. Meets on call of two members.

III. Board of Directors

a. Composed of five members:
1. 3 company officials.
2. 1 employee.
3. 1 representative selected by local chamber of commerce.

IV. Division of Profits

a. Distribution annually.
b. 50 per cent in cash and 50 per cent in preferred stock.
c. New construction, replacements and improvements are charged to profits, and preferred stock issued to stockholders and employees.
d. Division

After allowing for two sinking funds (one to guarantee dividends and the other unemployment payments to workers), and after deducting 6 per cent on stock, balance of profits to be divided equally between stockholders and employees. The amount of each sinking fund should equal 6 per cent on capital stock ($85,000.). Losses made in any one year are

to be reimbursed before future profits are distributed.

15. The Employee Representation Plan of the Milwaukee Railway and Light Company and Subsidiary Companies

This plan of employee representation and participation was first organized in 1912. At that time, it was simply a mutual benefit association with sick and death cash benefits and cooperative medical and surgical services. In 1914 it was incorporated as an insurance organization. In 1918 it became an industrial union, and, as such, executed a contract with the Company, providing for collective bargaining, no strikes, periodic adjustment of wages according to changes in living costs, and a system for the adjustment of disputes. A detailed analysis of the plan follows:

Employer

The employing company is the Milwaukee Electric Railway & Light Co., operating in Milwaukee the street railways and bus lines, the electric lighting and power service, and steam heating systems. The principal associated companies are: (1) Wisconsin Gas and Electric Company; (2) Wisconsin Traction, Light, Heat and Power Co.; and (3) Milwaukee Northern Railway Company. These properties are part of the North American Company (which has recently bought into the street railway, electric light, and bus service of Washington, D. C.).

Employees

The employees number some 6,000 in all, and comprise all the permanent employees of the four operating com-

panies. The age limit of new members is 54, but all new employees of the companies agree to become members of the plan and are initiated at the next monthly meeting of the employees' association.

The Association

All the permanent employees of these companies are members of the Employees' Mutual Benefit Association, called the E.M.B.A. This Association is the agency for employment. No one is employed who does not apply for and continue membership in the Association. Each applicant for employment states whether he belongs to any organization which "has or claims the right to call for service of any character interfering with employment or interrupting the continuity thereof."

Committees

Various committees are elected by employees by secret ballot, one in each department, called Labor Adjustment Committees. On none of these committees is there any Company representative, and any agreement that may be reached by such a committee with any officer of the Company is not valid till approved by both the Board of Directors of the E.M.B.A. and the executive officers of the Company. The Committees are composed of two representatives from each craft, or geographical location, as may be determined by the Association. The term of the members is for two years, and one man is elected each year. The senior members form the General Committee of that Department. (This is modified in the Transportation Department, where one man is elected from each Car House, the seven members thus chosen forming both the Labor Adjustment Committee and the General Committee.) Committee men are paid by the Association a fee of one dollar for each meeting held outside of working hours, and

are reimbursed for time lost on account of meetings held during working hours.

Directors and Officers

There is a Board of Directors of the E.M.B.A., elected or appointed for one year. On this board the employees elect 16 men by secret ballot, and the company appoints 8 men. The Directors elect a President from their own number, and also elect other officers necessary for the administration of the E.M.B.A. There is no regulation restricting the Company in its appointment of its 8 representatives, but it has adopted the practice of each year appointing the man who had been President the preceeding year, and as the President must be a director elected by the employees, the present eight men who represent the company are men who were first placed on the board by the employees. This has been so for the past several years, but there is no restriction to prevent the company from abolishing its practice.

Procedure

In case of grievance involving one man, that man first takes up his complaint with the foreman of his shop or department. Failing a satisfactory settlement, he then goes to his Labor Adjustment Committee, which will attempt to effect settlement with the Department. Failing, the case is taken on appeal to the Executive Committee or to the Board of Directors. (The General Committee considers matters affecting the Department as a whole and includes the senior representatives of each Labor Adjustment Committee in the same Department.) If the General Committee fails to obtain a satisfactory settlement, the matter may be referred to the Board of Directors, and that Board takes it up in full or through its Executive Committee with the General Officers of the Company, provided the Board feels that the case warrants such action. If a settlement still fails, the matter may be referred to the

arbitration of the State Board of Arbitration and Conciliation, and although some wage cases have been so referred, this final step is so rare that the State Board is practically a dormant body, and may not even be filled to its full quota at present. If the State Board were to be abolished there is a provision that the arbitration board is to consist of three members, one appointed by the Association, one by the Company, the third being the Chairman of the State Railroad Commission so long as that Commission exercises jurisdiction over rates charged and service rendered by the Company.

In case of group grievance, or of questions involving all the employees (such as general fixations of wages) the matter may be taken up in the first place by the General Committee of the Labor Adjustment Committee, or by the Board of Directors itself.

In this connection, it should be recalled that any agreement reached by the Committee or by the Directors is not valid till approved by the Directors and also by the General Executive Officers of the Company.

Wages

The present wage rate for motormen is a maximum of 61 cents per hour, reached at the end of a three-year graduated scale which begins at 55 cents. One-man cars pay 5 cents an hour additional. Conductors employed prior to 1922 receive the same rates of pay as motormen. Those employed since January 1, 1922, receive maximum wages of 56 cents an hour reached by a four-year scale.

The Labor Contract provides that wage rates shall be adjusted every six months in accordance with cost of living changes, provided the Company has the necessary revenues.

Men receive $2.00 a day while breaking in, and extra men are guaranteed $55.00 every pay day (every two weeks) provided they have made every required report.

Bonus System

There is a somewhat complicated bonus system whereby each employee may earn a substantial addition to regular wages. The trainmen average over $18.00 a month in bonus earnings—the factors involving freedom from damages and injuries, care of equipment, saving of power, and the like. One-half of this bonus is paid to the employee direct; the other half is invested for him in the installment stock of the Employees' Mutual Savings, Building, and Loan Association. About 85 per cent of all employees now participate under direct, measured bonus plans, while the remaining 15 per cent earn bonus, which is computed as an overhead on the basis of the earned bonus paid the other 85 per cent of employees.

Dues

The men pay an initiation fee of $1.00, and dues of $0.75 a month. The Company contributes an equal amount.

The Company also provides space for offices, a meeting hall, postage, stationery and printing, general medical director, recreation facilities.

Benefits

Each member is given sickness and accident benefits amounting to $1.00 a day after the first five days and for 200 consecutive days. If disability continues he may either be given then $150 additional, in which case his membership ceases, or else he may be allowed to continue paying his dues and be entitled to the death benefit.

The death benefit amounts to $300.

Neither the death benefit nor accident benefit is paid in cases where the employee is injured while on duty, as then the State Law of Industrial Compensation applies, and the benefit is accordingly more generous and is paid by the insurance company.

Employees of over a year's service are given an additional life policy of $500. Any member may take out addi-

tional sickness and accident insurance amounting to another $1.00 per day, the premium for which varies according to age (45 cents a month at age of 30 and $1.50 a month at age of over 50) but of which premium the Company pays half.

The E.M.B.A., as an insurance company, has outstanding life insurance exceeding $3,000,000. This and the sickness and accident insurance are sold at cost.

There is also a hospital benefit amounting to $1.00 a day for 100 days.

There is free medical and surgical service, the E.M.B.A. maintaining a corps of 24 physicians and surgeons, 5 visiting nurses and several dentists. This service includes also the wives and children under 18, and covers obstetrical service. Medicine and dentistry service are furnished to members and wives at cost of materials and overhead (amounting to about one-half the ordinary outside fee).

Pension Plan

The Company maintains a pension plan, the funds being in the hands of a Trust Company as Trustee. The pensions vary between a minimum of $250 and a maximum of $750 a year, and are fixed in accordance with average wages received and by length of service.

Payments by Company

The Company agrees to pay into the pension fund at least one-half of one per cent of its operating revenues, and also to pay the costs of its share of the above benefits by contributing an amount equal to that contributed by the members, and also pay various organization and recreation expenses. If the total is less than one per cent of its operating expenses, the Company will add to the pension fund up to that total of one per cent.

Contract

The labor contract between the Company and the Association is a continuing one. It can not be changed except

by mutual consent, and can not be abrogated except by giving six months' notice.

The E.M.B.A. hires all the employees needed by the Company.

The E.M.B.A. agrees that there shall be no strikes.

The Company undertakes:

To treat collectively with the members of the Association on all matters pertaining to wages and working conditions;

To make effective the eight-hour day in all occupations so soon as provided with revenues required therefor;

To readjust wages semi-annually by collective bargaining;

To maintain the bonus system;

To continue the present pension system, etc., etc.

The labor contract further contains the mutual agreement: "that the members of the Association and the Company are engaged in performing a public service" which is as necessary during normal times as during any emergency.

In case the contract is broken by the E.M.B.A., the pension fund is to be handed over to the company, and all company contributions to the benefit funds terminate.

Miscellaneous

All changes in working conditions must be negotiated by the Labor Adjustment Committees.

There is in force the "Brown" system of discipline, whereby the employee is credited with a certain number of merits each month, and then is penalized a varying number for each infraction of rule, and may be discharged in case he reaches zero.

Thrift

The automatic savings by employees under the bonus plans (one-half of such earnings being deposited monthly) are very large. There is now on deposit in the Building and Loan Association more than $7,000,000. This Asso-

ciation has loaned money to more than 3,500 employees to build or buy their own homes.

16. Wm. S. Filene Sons Company Cooperative Plan

This unusual plan of a nationally known department store grew from small beginnings to its present comprehensive scope. Its first activities began in 1898. Its formal charter, or first written constitution, was adopted, accepted by management and ratified by employees in 1921. The plan, as briefly analyzed, is as follows:[9]

A. *Employee Representation and Cooperation*

I. Filene Cooperative Association

a. All employees regularly on pay-roll are members.

II. Council

a. Composition

1. Officers of Association.
2. Representatives of the Cooperative Association on the Directorate of the Corporation.
3. One Councillor elected from each of the 18 sections of the store.

b. Eligibility of Employees

Employees are not eligible for election on the Council unless they have been on pay-roll for two years.

c. Term of Council and Officers, one year.

[9] For detailed study of this plan see pamphlets issued by the Company: "The Way Out," by Edward A. Filene, and "A Merchant's Horizon," by A. Lincoln Filene; address by Edward A. Filene before Economic Club of Boston; *The Consensus*, National Economic League, July, 1923, pp. 65-71.

III. Powers of Council

a. To initiate all cooperative activities, hear reports of committees, etc.

b. The council may, by a two-thirds vote of its membership, initiate, amend or abolish any store rule. If a vote of two-thirds of the council on a store rule is vetoed by the Management within a week, effect can still be given to the council's decision by a two-thirds vote of the entire membership of the F.C.A. voting to support the council.

Initiation, amendment, or cancellation of a store rule may also be brought about, without recourse to the council, by a two-thirds vote of the entire F.C.A. membership, upon petition to the F.C.A. Executive Secretary by 4 per cent of the F.C.A. members. If the Management vetoes such a decision of the F.C.A., a second vote of two-thirds of the entire membership is necessary to bring the rule finally into effect.

c. Nominate six members for Board of Directorate of Wm. S. Filene Sons.

d. Confirm appointment of Executive Secretary (originally appointed by Management).

IV. Powers of Members of Association

a. To change store rules by two-thirds vote over management.

b. To demand arbitration by Regular or Special Board.

V. Regular Board of Arbitration

a. Composed entirely of employees, 18 of whom are members, 12 of whom sit in each case. They are elected one from each store section.

b. *Management has no representative on Board*

c. Chairman, appointed by the President of Cooperative Association and confirmed by the Council.

VI. RECALL

Of members of Council, Committees, etc., is provided for by petition and vote of employees.

VII. EXECUTIVE SECRETARY

a. Coordinating Officer of all activities of the Association.

b. Keeps minutes, conducts correspondence, calls meetings, ex-officio member of all committees, publishes Cooperative Association paper, employs staff and carries out policies of Cooperative Association and Council, general counselor to all members, acts as attorney for any member, as against Management, before Arbitration Board, calls elections, etc., etc. May be recalled as any other officer.

VIII. SUGGESTION COMMITTEE

a. To receive, consider and recommend suggestions for improvement of business, economies, efficiencies, etc., and to reward suggestors.

b. Composition.

1. Chairman.
2. Representative of Management.
3. Representative of Operating Committee.
4. Representative of the Cooperative Association.
5. Also subcommittees, which are representative of craft and division groups.

IX. EMPLOYEE DIRECTORS

Cooperative Council nominates a panel of six from whom four are selected by the stockholders as Directors of the Company.

Management (two Filene Brothers and two partners) also selects on its own initiative two more employees as Directors.

These six employee directors, other than members of the Management, therefore, constitute a majority of the eleven members of the Company's Board of Directors.

X. Cooperative Council Also Administers

a. School work (business) for employees and executives.
b. Its own conducted restaurant.
c. Credit Union or Savings Bank. ($250,000 deposits.)
d. Hospital and Clinic.
e. Loan Funds.
f. Recreation, plans, etc.

XI. Profit-Sharing

Individual bonus system determined by management.

17. Loyal Legion of Loggers and Lumbermen

This plan is of interest because it is one of the few plans in this country resembling the Whitley Committee plans in Great Britain in that it is a national industrial council representative of plants owned by different employers. Unlike the Whitley type, however, the organization, so far as employees are concerned, is not based on trade-unions. There are only a few others of this type in the United States, as the Waterfront Employees in Seattle, printing and allied trades of Boston and Baltimore, national councils in the commercial and

periodical branches of the printing and the electrical industries, and possibly the organizations in the garment trades of Chicago, Cleveland, and Rochester.[10]

The Legion had its origin in war-time necessity. The lumber industry in the Northwest was in a very chaotic condition during the year 1917, just at the time when the greatest production of lumber was necessary for war purposes, especially in the manufacture of aeroplanes. The I. W. W. agitated and clamored for better conditions, and applied their principle of sabotage whenever possible, so that production in the logging camps was greatly diminished. To remedy this situation, the War Department sent a representative to the coast to investigate the industry.

At a conference—arranged by Colonel Disque, the War Department representative—of the leading lumber employers of the coast, it was suggested that the present organization be created, with the object of "lining up all patriotic workers behind the Government's war policy." The Legion was to serve as a propaganda agency to counteract the I. W. W. and their methods. For this reason, offi-

[10] "Employee Representation," Ernest Richmond Burton (1926), pp. 40-42.

"Workmen's Representation in Industrial Government," Miller (University of Illinois Studies in Social Sciences)—pp. 98-177.

For a complete account of the Legion and its development see Bulletin 349, United States Bureau of Labor Statistics. Also special articles in *Atlantic Monthly*, February, 1921, and *Journal of Political Economy*, June, 1923.

cers of the Spruce Division of the War Department were sent into the lumber territory to organize all and any workers and employers in the industry, and to secure their pledges of loyalty and support.

The highest membership of the organization was 125,000 during the war. By 1921 this had fallen to approximately 10,000. There have been gains at times but the membership in 1925 was practically what it was four years earlier. In 1925 there was a total of 150 different employers represented.

Several changes have been introduced into the plans of the organization since the war. The first of these was the Employees' Conference Committee. During the war this was a mixed committee on which foremen and minor executives might have been included. Now it is entirely composed of rank and file of workers. This committee is the heart of the industrial relations plan. The committee sits in conferences with the local employer.

Another change since the war has been made in the name and function of the Board of Directors. Previously this body was called Industrial Council, with final power to decide on minimum wages, maximum wages, working hours, etc. Since 1919, the Board has found it expedient to establish special wage boards for specific regions under its jurisdiction, which determine district minimum and going wages. An analysis of the constitution of the Legion is given below:

I. *System of Collective Bargaining*

A. Committees

a. Local

1. Consists of any employees in lumber business who are under one management or plant.
2. Officers elected by local are chairman, vice-chairman, secretary and treasurer, the latter two of whom may be combined.
3. Officers elected semi-annually by secret ballot and may be re-elected three times.
4. Local has right to prescribe own by-laws.
5. Meetings of local take place at least once a month and may also be called by conference committee after two days' notice.

b. Employees' Conference Committee

1. Consists of local chairman, vice-chairman and secretary.
2. Initial machinery for industrial relations and meetings is provided, whenever necessary.

c. District Boards

1. Consists of four employees and 4 employers (2 loggers and 2 millmen) of each of the districts.
2. Employee members of the Board are elected at employees' annual convention from among employee conference committees. The employer members are chosen by employers of each district.
3. All District Board members are elected as first, second, third and fourth employee or employer members, respectively, in order of their election, and the first member is chairman of employees' or employers' members of the District Board, respectively. They hold office until successors are elected.

4. The Presiding Officer of the District Board is the District Manager appointed by Board of Directors.
5. Meetings may be called by secretary manager of the Legion to be held ten days before meeting of the Board of Directors.

d. Board of Directors

1. Comprised of the employees' and employers' chairmen of the District Boards.
2. Meetings held twice a year, in May and November.
3. President of Legion is presiding officer.

B. General Officers Managing Organization

a. President

1. Elected by Board of Directors.

b. Officers Nominated by President, with Approval of Board.

1. Secretary-Manager.
2. Treasurer.
3. Sanitary Inspector.
4. Editor of 4L Bulletin.

C. Procedure for Adjustment of Differences and Grievances

a. Two classifications of industrial relations

1. "Matters of local concern" which affect the living, working and recreational conditions of the *individual.*
2. "Questions of general import" affecting the industry by districts or as a whole, such as wages, hours, general administration, etc.

b. If grievance is "local," it is sent to Conference Committee for adjustment with management.

1. If no settlement is reached case is sent in writing through the main office, addressed to the President, for final decision.

c. If grievance concerns the General or District Matters, it is referred to the District Board for settlement.

d. If no decision is reached by District Board it is referred to Board of Directors.

e. If Board of Directors, presided over by President, can reach no decision, President can cast deciding vote.

f. From such a decision an appeal can be taken to an Impartial Tribunal.

1. Tribunal made up of three men not connected with lumber industry. One man chosen by employer members, another by employee members, and these two choose the third, who, if possible, is to be a Federal Judge.

D. Negotiations as to Wages, Hours, etc.

a. All such matters are of general import and are settled by District Boards.

1. May be instituted by conference committee, but can have no final power.

b. The machinery for further negotiation has already been stated. After District Board, to Board of Directors, to Arbitration Tribunal of three men, not interested in the lumber business.

c. Board of Directors supreme legislative body.

1. Power to rule on establishment of minimum wage, working hours. During the war, maximum wages were also established.
2. All decisions as to wage-scales and other general matter published in Bulletin.

E. Elections

a. Voters. All members in the Loyal Legion of Loggers and Lumbermen.

1. Any person engaged in lumber business is eligible. Must be a citizen, or have declared

his intention to become a citizen, must not have evaded draft and must have been loyal to the U. S. Government.

2. Section 1, Article II expresses no antagonism to ordinary labor union, but is aimed directly at I.W.W. "Affiliation with any association, organization or union whose precepts are in accord with the Constitution of the United States and its laws and government, shall not be considered as a bar to membership.

b. Candidates for Committees.

1. Must have been in employ of business at least three months.

c. Nominations and Elections.

1. Elections for local committees by secret ballot.
2. Votes of the majority necessary to carry proposition at local meetings.
3. President nominates the other executive officers of the organization, confirmed by Board of Directors.

d. Annual Convention.

1. Time and place decided by Board.
2. Delegates to convention are the chairmen of employees' conference committees and one representative of each affiliated employer.
3. Voting at convention is to be on the basis of one vote for every fifty members or major fraction thereof.

F. Guarantee of Enforcement of Decisions

a. Employers must deposit bond to the amount of $2.50 for each employee, but a minimum of $100.

1. Refusal to obey order of the Board subjects employer to fine and forfeiture of bond.
2. This system now abolished but employer must give 30 days' notice of intention to withdraw from organization.

18. The Printz-Biederman Company Plan

A plan for so-called industrial democracy, or a typical John Leitch plan, was installed in the clothing company of Printz-Biederman in 1914. Following the analogy of the American government, it contained provisions for a House of Representatives, composed of representatives from each department, or one for every 20 employees; a Senate, consisting of the foreman and operating executives; and a Cabinet, made up of the President, Secretary, and Treasurer, of the corporation.

In 1918-1919, troubles arose over the functioning of the Senate, the methods of adjusting grievances and wages, the question of discharge, and the relations with organized labor. Finally, the House voted to amend the Constitution and to abolish the Senate in 1918. The Cabinet approved the bill and in place of the Senate, and practically of the Cabinet also, a Planning Board of six members representative of the Company, was established to keep in touch with House Committees and its proposals. After about a year, the President of the House was included in the membership of the Planning Board, the idea being to give the House a close contact with and an intimate knowledge of, the problems of management. It gradually came about that the Factory Manager decided problems as they arose, and the Planning Board tended to become an advisory body on personnel matters.

A detailed analysis of the plan up to 1924 was as follows: [11]

DIGEST OF LEITCH PLAN AT PRINTZ-BIEDERMAN COMPANY, 1914-1924

I. *Legislative System*

A. House of Representatives

a. Composed of members from each department of factory, one for every 20 employees.
b. Elected for one year.
c. Chairman or President elected by House.
d. Meets about once a week.
e. Appoints from membership standing committees on all important matters.

B. Senate and Planning Board

a. Senate was composed of foremen and minor executives of Company.
1. Acted as go-between from House to Cabinet.
2. Had privilege of being present at House discussions.
b. Senate abolished in 1918 and Planning Board established.
c. Executives may now participate in House discussions only by permission of House Chairman and must leave room after remarks have been made.

d. Planning Board.
1. Composed of 3 members of House and 3 executives. Chairman of House is member of Board, ex-officio.

[11] In connection with this plan, see "Man to Man, The Story of Industrial Democracy," by John Leitch, New York, 1919. In this book Mr. Leitch discusses the fundamentals of his system and the results of its application in a number of establishments.

2. Takes place of Senate and confers with House Committees at least 2 times a week.
3. Acts as link between workers and corporation.

e. *Cabinet.*

1. Highest legislative body, composed of President, Secretary and Treasurer of corporation.
2. Has final power to pass on bills.
3. No statement as to whether veto of Cabinet can be overridden.

II. *Legislative Procedure*

A. Bill Is Introduced in House

a. It is then referred to regular standing committee. If new subject matter, new committee may be appointed.

b. Committee then confers with Planning Board and holds hearings on bill.

1. Members of departments interested in bill are asked to testify.

c. Committee reports recommendations to House and House votes.

Bill Goes to Cabinet for Approval

a. Cabinet may approve or overrule recommendations in bill.

III. *Procedure for Adjustment of Grievances*

A. First Taken to Standing Committee Having Jurisdiction of the Particular Grievance

a. Most important of these is Wage Rate Committee.

1. Contains at least one member from each department.
2. Holds hearings on wage scale and bonus plans.

3. Appoints a sub-committee to study time schedules and working hours.
4. Confers with Planning Board before reporting to House.

b. Betterment Committee.
1. Considers question of discharge.
2. Company must confer with Committee before discharging.
3. If decision is against employee latter may appeal to Board of Review.

B. Negotiations as to Wages, Hours, etc.
a. Always conducted between Wage Committee and Planning Board, before voted upon by House and Cabinet.

IV. *Elections*

A. Voters. All employees in factory vote for House members—one member for 20 employees.
a. Not clear as to eligibility for vote.
1. Some firms demand age and citizenship qualifications.
b. Voting by departments.

B. Candidates
a. No specific qualifications stated.
1. Some firms demand age, citizenship, language, continuous service qualifications for membership in House.
b. No specific statement that union affiliation is a bar to candidacy.

C. Nominations and Elections
a. Always by secret ballot.
b. Vote by departments, one member for 20 employees.

The foregoing organization and the procedure described remained in effect until January 1, 1924. An expansion program which came to an end in 1923 left the Company under the necessity of reducing its organization about one-half, and handling peaks in production more largely by outside shops and sub-contractors. This change in policy by the Company resulted in greater simplicity and more direct action between the House of Representatives, or the Betterment Committee as it was then and is now called, and the Management. The Factory Manager now really sits with the Committee at every meeting, and grievances, wage changes, and other matters are settled as quickly as possible by direct contact between the Management and the Committee.

As a consequence of these changes, it will be observed that very little semblance of the original plan remains in the scheme as at present in effect. As the different functions were absorbed more and more by a smaller number of agencies, the scheme became progressively more simple until it was reduced to one general committee of employees dealing with the manager of the factory. The Company states, however, that the effectiveness of the House of Representatives is not any less than it was before. "The letter and spirit," they state, "of the Constitution, as it exists, is being enforced and the employees are not required to accept any change without their consent, nor can they, of course, force the Management to make any change."

"The provision for arbitration is still maintained,

although this has never been exercised. We think that the reason the employees have never felt it necessary to exercise this is because in extreme cases they have called upon the President of the firm, who has always made it a point to be as liberally impartial towards their viewpoint as possible, thus they have always accepted his decisions as final."

19. Ford Motor Company

The minimum wage plan was first introduced in 1914 by the Ford Motor Company through the establishment of a five-dollar minimum wage for an eight-hour workday. In 1922, the minimum was revised to six dollars a day, and this included also the profit-sharing dividend. It was also restricted at first to those employees whose private lives, after personal investigation, were found to be morally sound, and included such worker "who is married, living with and taking care of his family; every single man more than 22 years of age, who has proved thrifty and of good habits, and to every man and woman less than 22, who is the sole support of next of kin or blood relation." Results of investigations proved that at first 60 per cent only of factory workers were eligible; but after six months, 78 per cent; and after one year, 87 per cent, and recently it was found that only a small fraction of one per cent were not eligible. Finally all supervision was abandoned. In his recent book, "Today and Tomorrow," Mr. Ford, in this connection, writes: [12]

[12] "Today and Tomorrow," by Henry Ford, pp. 159, 160.

"We do not believe in paternalism. When first we raised the wages to five dollars a day, we had to exercise some supervision over the living of the men because so many of them, being foreign born, did not raise their standards of living in accord with their higher incomes. That we entirely gave up when the need had passed.

"We feel that a man ought to have savings enough to tide him over any crisis, but there are times when illness wipes out the savings, and then we arrange for loans. We have legal and real-estate departments and stand ready, in fact, to render any reasonable service that is asked for.

"We had to branch into store-keeping in Highland Park in 1919 because rents and prices were everywhere being forced up on our men, and it seemed useless to pay good wages if the men could not get value for them. At first, we went in only for groceries and drugs, but now we have butcher, clothing and shoe shops, and also sell fuel. We have ten stores in all and they do a business of ten millions a year at prices on an average of 25 per cent below the market. The stores are restricted to our employees and executives and are on the cash-and-carry basis. We sell only first-class products, and some of them come from our own lands. A deal of the bread is made from flour raised on our own land and ground in our mills. The coal, coke and briquettes are all from our own properties."

Mr. Ford has also recently made a remarkable innovation in industry by the adoption of a policy of having his employees work only five days a week of eight hours each, for which they receive the same compensation which they formerly were paid for a six-day week. In an authorized interview published in the *World's Work* for October, 1926 (pp. 613-614), Mr. Ford explains the new policy as follows:

> " 'We have,' he said, 'decided upon and at once put into effect through all the branches of our industries the five day week. Hereafter there will be no more work with us on Saturdays and Sundays. These will be free days, but the men, according to merit, will receive the same pay equivalent as for a full six day week. A day will continue to be eight hours, with no overtime.
>
> " 'For the present this will not apply to the railroad, and of course it cannot apply to watchmen or the men on certain jobs where the processes must be continuous. Some of these men will have to work Saturdays and Sundays, but they constitute less than 1 per cent of our working force, and each of them will have two consecutive days off sometime during the week. In short, we have changed our calendar and now count a week as five days or forty hours.' "
>
> . . . . . .
>
> " 'This decision to put into effect the short work week is not sudden. We have been going toward it for three or four years. We have been feeling

our way. We have during much of this time operated on a five-day basis. But we have paid only for five days and not for six. And whenever a department was especially rushed it went back to six days—to forty-eight hours.

" 'Now we know from our experience in changing from six to five days and back again that we can get at least as great production in five days as we can in six, and we shall probably get a greater, for the pressure will bring better methods. A full week's wage for a short week's work will pay.' "

The wage system of the Ford Company and its plan to stimulate thrift among employees may be briefly summarized as follows:

I. *Investment Certificate Plan* [13]

Investment certificates issued in denominations of $100, and are purchased by employees on the installment plan. The certificates are non-negotiable and non-assignable. They have a guaranteed return of 6 per cent, but additional payments may be made at the discretion of the Board of Directors. The returns have been as high as 14 per cent, and the total investments of employees in these certificates have reached as high as $22,000,000.

II. *Wage System* [14]

The minimum wage is now six dollars per day. About 60 per cent of the men earn more than the minimum.

No piece rates. All payments by time but with a required minimum output. Mr. Ford describes the origin of the system as follows: [15]

[13] "Today and Tomorrow," by Henry Ford, 1926, p. 160.
[14] *Idem.*
[15] "My Life and Work," by Henry Ford, 1922, p. 127.

"The plan was to distribute profits, but instead of waiting until the profits had been earned, to approximate them in advance and to add them, under certain conditions, to the wages of those persons who had been in the employ of the company for six months or more. . . . A man was first to be paid his just wages—which were then on an average of about fifteen per cent above the usual market wage. He was then eligible to a certain profit. His wages plus his profit were calculated to give a minimum daily income of five (now six) dollars."

20. Hart, Schaffner and Marx, Chicago

The first labor agreement of Hart, Schaffner and Marx, clothing manufacturers, developed from the strike settlement of January, 1911.[16] It ran for two years and has been followed by similar agreements for varying periods. The objects arrived at are thus set forth in the preamble of the agreement written by J. E. Williams, the then Chairman of the Board of Arbitration:

The parties whose names are signed hereto purpose entering into an agreement for collective bargaining with the intention of agreeing on wage and working conditions and to provide a method for adjusting any differences that may arise during the term of the contract.

I. *Employee Representation Plan*

1. Board of Arbitration. Consists of a chairman chosen jointly by the two parties, and if issue arises, two additional members may be appointed, either by the parties jointly or by each of the parties naming a member.

[16] For complete text and history of agreement, see pamphlet entitled "The Hart, Schaffner and Marx Labor Agreement," by Earl Dean Howard, Director of Labor for that company.

2. Trade Board. This Board is the primary board for adjusting grievances. It consists of a chairman selected by the two parties. In addition to his regular adjusting duties, he acts as chairman of the cutting room commission and piece-rate committee. In general it was intended that the Trade Board would be better equipped than the Arbitration Board to handle technical matters of the industry. Appeals may be taken by either party from its decision to the Board of Arbitration.
3. Deputies. Representatives are appointed by each side, known as deputies. Their duty is to investigate, mediate and if possible adjust complaints. The deputies usually work in pairs, one representing each side. Deputies may represent their respective sides in hearings before the Trade Board and the Arbitration Board.
4. Shop Representatives. The union has in each shop a duly accredited representative, recognized as the officer of the Union having charge of complaints and organization matters. Such shop representative must be an employee of the firm, but is given necessary time and freedom to investigate complaints and to perform his other duties.
5. Handling of Grievances
   a. When a grievance arises, the complainant reports it to the shop representative who takes it up with the shop superintendent or the representative of the Labor Department if there is one in the shop. If this is unsuccessful,
   b. The shop representative reports the complaint to his deputy. This deputy together with a deputy of the company seeks to obtain a satisfactory settlement. If unsuccessful,
   c. The deputies certify the case to the Trade Board, with written statements of facts.

d. All decisions of the Trade Board are in writing. If either party desires to appeal from this decision to the Board of Arbitration, it must file a notice of intention with the Board within ten days of the decision.

e. In case of appeal from its decision, the Trade Board certifies the case to the Board of Arbitration, with a summary of the main facts and the grounds for its decision.

f. Decisions of the Arbitration Board are final, and the decision of a majority of the Board is binding on the Board. The Board may, however, after a reasonable time, grant a rehearing of any decision, this provision being made in recognition of the fact that conditions and the problem itself may change.

6. Subject Matter Covered. The agreement covers all matters of shop discipline and working conditions, except that the wage scales and hours of labor to be observed are written into the agreement, but with the provision that the Arbitration Board may make changes in wages at yearly intervals, upon request of either party, and after due investigation, and provided the parties cannot agree on a satisfactory settlement between themselves.

7. Piece Rate Committee. Appointed as needed to consider changes in piece rates. If committee disagrees the Trade Board fixes the rate.

8. Union Recognition. The agreement recognizes the Union as an interested party and establishes the principle of the "preferential shop." That is to say, the company agrees to give preference to members of the union in employing and in discharging workers.

II. *Unemployment Insurance Fund*

The company is a party to the general Unemp'oyment Insurance maintained by the Chicago Industrial Federation of Clothing Manufacturers and the Amalgamated Clothing Workers of America. The employees contribute 1½ per cent of their pay to this fund and the employer contributes an equal amount. The administration is by a special Board of Trustees. Benefits are at the rate of 40 per cent of full time weekly wages, but not in excess of $20 per week, and provided there are moneys in the Fund available for the purpose. The maximum payments to a member shall not exceed five (5) full weekly benefits in a single year.

21. Garment Trade, Cleveland

This agreement is between the Cleveland Garment Manufacturers' Association and the International Ladies' Garment Workers' Union, representing the union workers of Cleveland. The agreement grew out of an understanding brought about by the Secretary of War in August, 1918. The agreement is continuing, being automatically renewed on December 31 of each year, subject to the right of either party to terminate it upon written notice given at least three months prior to the end of each year.

I. *Plan of Representation*

1. Board of Referees, of three impartial members, named in the agreement, vacancies to be filled by joint action of the Union and the Association, and if these are unable to agree, by the remaining referees and the two parties. This Board is the final authority in set-

tlement of disputes, and also establishes periodic wage scales for the industry. Any one member of the Board may act for the Board, except where either party requests the consideration of the full Board.

2. Method of Handling Disputes
   a. Disputes are first taken up between the worker concerned or his representative in the shop and the employer or his representative. In case of failure, the matter is taken up by
   b. The manager of the Union and the Manager of the Manufacturers' Association. Disputes of a general nature are taken up directly with these managers.
   c. If the managers fail to effect a settlement, the dispute is arbitrated by the Impartial Chairman in the industry, who has been agreed upon by both parties and who is also a member of the Board of Referees. His decision is final, although both sides have the right to appeal to the Board of Referees against it.

3. Control of Contracting and Sub-Contracting Shops. The Manufacturers, parties to this agreement, are forbidden to deal with contracting or sub-contracting shops which do not observe the wages and hours provided for in this agreement.
4. Union Recognition. The agreement recognizes the Union as representing the employees of the industry.

II. *Wage Fixing*

1. Board of Referees establishes a wage scale once a year, subject to reopening after four months for adjustments in conformity to changes in cost of living.

III. *Production Standards* are established in every shop, under the supervision of

a. A Joint Committee on Standards, consisting of 5 members named by the Union and 5 named by the Association, and

b. An Engineer in charge, who is *ex officio* chairman of the Joint Committee.

c. Employers engage time study experts to establish standards in each shop subject to the approval of the workers on the original garment. These experts are paid by the employers.

d. A shop committee on standards, named by the union, in each department of each shop. This committee, on behalf of the workers, may approve or disapprove the standards submitted to it by the experts. If this committee or the management disapprove of any standard, an adjustment is reached either by mutual consent, or else by retesting the workers on each garment.

IV. *Employment Guarantee*

Each worker is guaranteed not less than 40 weeks of employment in each year, or pay at one-half his minimum wages, so long as the fund provided for his shop permits this to be done.

Each manufacturer must set aside 10 per cent of his weekly payroll as an insurance fund, unless some substitute form of security is approved by the Impartial Chairman.

22. The Columbia Conserve Company, Indianapolis, Ind.[17]

This company is a canning concern capitalized at $400,000, doing approximately $1,000,000 of busi-

[17] See chapters by Miss Nord Holt and W. P. Hapgood in a recently published book, "Business and the Church," edited by Jerome Davis, The Century Co., New York, 1926.

ness in 1925. It has been in operation since 1903, and is at present owned for the most part by Wm. P. Hapgood and his two brothers. The number of employees varies from 100 to 300.

The present status as to employee representation and copartnership is the result of a gradual development begun in April, 1917, when two committees were created, one of ten members elected by the factory force, and the other of three members appointed by the management. These committees met jointly or separately and in each case a majority vote ruled. No subject was excluded from consideration that related to the plant as a whole, whether it concerned wages, hours, working conditions or general problems of factory management. In the beginning, Mr. Hapgood retained the power of veto, and the plant council was somewhat in the nature of an advisory committee, but at the end of the first year the distinction between the factory and the office committees was abolished and one "council" was elected for the plant as a whole. Those elected to the council were at first the more experienced persons in the establishment, chiefly the heads of departments and their assistants.

In 1921, membership in the council was offered to "qualifiers." Any salaried employee by attending eight consecutive meetings might become a member, and conversely, it was voted that any member who had been absent from two consecutive meetings without a proper reason would thereby forfeit his membership. Up to this time the board of directors

of the company had retained veto power over the actions of the council, but by 1921 the other members of the Hapgood family had voluntarily withdrawn from the board and had been replaced by salaried employees of the company. At present the complete and final determination of all company policies rests with the council and only nominal powers are exercised by the board.

In 1923 eligibility to membership in the council was extended to every employee, whether salaried worker or wage-worker, who should attend a meeting, the voting privilege on any question being given to the new member at his first meeting. The only check upon action taken by the council is the right of any salaried council member who has been a member for a year or more to call for another vote on the question, at which time only those members who have served a year or more may vote. This safeguard has been used only twice since the plan became operative. A majority vote rules.

Since the fall of 1924, another type of meeting called the Factory Meeting has been held once a month, on company time. The object of this meeting is to give every employee an opportunity to get his suggestions or grievances out into the open. The officers of this group, selected by its members, are a chairman and a secretary. Any motions, suggestions or grievances which are brought before a Factory Meeting are taken by the chairman to the Council for action.

In addition to the Factory Meeting outlined, there

is now what is called an Educational Meeting, also held on company time. These meetings are in the hands of a committee of five, chosen by the Council to arrange programs of educational value to the employees. These programs usually take the form of lectures or informal talks and discussions on current topics of interest.

It is the aim of the Council to place every worker on salary who is likely to be retained on the payroll for the entire year. No one can be placed on salary except by action of the council, and each individual must prove himself worthy. No salaried employee can be discharged, except by action of the Council. Salaried workers are, in effect, paid by the year, regardless of the number of hours worked. They thus have a guaranteed income, and lose nothing when absent because of sickness or other proper reason. They are given vacation with pay, based upon length of service, a week for each four months' service, on salary, during the year. At present there are about one hundred salaried employees and three wage-workers who have not yet qualified for the salary basis. In addition, about 200 casual workers are taken on at the peak of the tomato-canning season.

All salaries are decided by the Council. There are nine salary groups, ranging from $19 to $30 per week, and a tenth, or special group, which is divided into three parts. One part includes persons holding special jobs, which cannot be classified by comparison, such as department heads, salesmen and buyers,

the maximum salary being $100 per week; and another part covers cases in which the needs of the individual rather than his productive ability is the deciding factor.

Every salaried worker is put absolutely on his own honor as far as attendance is concerned, the safeguard against abuse being the criticism of fellow workers and the liability of action by the Council. There have been remarkably few cases of the latter.

Every one works the same number of hours, whether he be in the office or the factory, the number of hours per day or per week being governed entirely by production requirements. Salaried workers are not paid overtime for extra hours, but wage-workers are. During the tomato-canning season, which usually lasts about six weeks, it is not unusual for the plant to operate 70 to 80 hours a week. If the office force finishes its work for the day before the plant does, the office workers go into the factory and work until the whole force is finished for the day. During the slack season, the hours are reduced as much as they safely can be. The regular working week now is 45 hours a week, 9 hours a day for 5 days, leaving the week-end free for rest and recreation. The Council decides the length of the working day in accordance with business conditions at the time.

Department heads and sub-heads are chosen by the Council, as is also the placing of salaried workers in departments and the transferring of workers from one department to another. Thus, promotion

and demotion and all other personnel problems are placed in the hands of the entire group. A series of personnel meetings is held the first of each year, at which the entire force is gone over individually, and the strength and weakness of the organization of each department is carefully considered. In the past, the Council has not hesitated to take action, even though it meant the demotion of some one universally liked.

The original profit-sharing plan provided for the division of profits equally between the common stockholders and workers, the amounts paid to salary workers being proportioned to individual earnings. In January, 1925, a new plan was instituted which provided that, first, a 10 per cent cumulative dividend on the common stock and the same percentage, non-cumulative, on the salary pay-roll be set aside; then, 10 per cent of the remainder of the profits is to be set aside for a pension fund, and finally, any money still remaining to be used to buy outstanding common stock, that which is held by absentee stockholders to be bought first. This stock as it is acquired will be held by the Council in a trust fund, and the ownership control of the business will pass into the hands of the Council when 51 per cent of the common stock has been purchased by it.

Thus, by a long educational process extending over nine years, this experiment, which is still in its growing stage, has accomplished the substitution of salary for wages, a system of profit-sharing, and complete control of the concern by those directly

engaged in production rather than by absentee stockholders. Its industrial platform, containing eight planks, is as follows:

1. Full-time employment.
2. Full protection against accident, sickness and old age.
3. Minimum wage.
4. Maximum wage.
5. Profit sharing.
6. Abolition of absentee control.
7. Workers' council.
8. Workers' ownership.

A synopsis of the plan as at present in operation follows:

I. *Organization*
   - *a.* The Council.
   - *b.* The Factory Meeting.
   - *c.* The Board of Directors of the Company.

II. *The Council.*
   - *a.* Composed of every employee, including the managerial employees, who attends a meeting.
     1. Salaried workers—those employed virtually by the year.
     2. Wage-Workers—casual employees taken on for the peak of the canning season.
   - *b.* Function. Has complete and final determination over all company policies, including production, management, sales, working hours, salaries and wages, promotions and demotions, etc.
   - *c.* Officers, Chairman, Vice-Chairman, and Secretary. Elected by Council. No set term of office.

d. Meetings.
1. Regular: twice a month, in the evenings.
2. Special: whenever a Council member wishes to call one for a specific purpose.

e. Veto. Action on any question subject to reconsideration by the council, at which only workers who have been on salary basis for one year or more being eligible to vote.

III. *Factory Meetings*

a. Composed of all employees.

b. Meetings, twice a month, second and fourth Fridays, for one hour on company time.

c. Function:
1. Second Friday: general discussion of suggestions and grievances.
2. Fourth Friday: general educational meeting —lectures, informal talks, discussions of pertinent subjects, etc.

IV. *The Board of Directors*

a. Composed entirely of salaried workers.

b. Function. Only nominal powers.

V. *Profit-sharing and Stock acquisition*

a. Common stock of the company now held by:
1. Mr. Hapgood and his two brothers, and a small amount by other employees than Mr. Hapgood.
2. The Council in a trust fund.

b. Distribution of profits.
1. 10 per cent cumulative on the common stock.
2. 10 per cent non-cumulative on the salary payroll.
3. 10 per cent of the remainder to be set aside for a pension fund.

4. Other 90 per cent of the remainder to be used to buy outstanding common stock for the account of the Council.

VI. *Insurance and Benefits.*

a. Regular workers are protected against part time employment by being virtually employed by the year. They are not docked for absence due to sickness or other reasonable cause, nor for part time due to business conditions, nor at all except by action of the Council.

b. A pension fund provides protection against old age.

VII. *Hours, vacation, etc.*

a. Determined by the council according to the necessities of production, the business situation, etc.

b. Regular hours are 9 hours a day, five days a week.

c. Overtime is paid to wage-workers, but not to salaried workers.

d. All classes of workers have the same number of hours. During periods of overtime, office workers go into the factory after finishing their regular work, and carry on until the work for the day is completed, when all workers quit together.

e. Vacations with pay are given to salaried workers at the rate of one week per year for each four months' employment during the year as a salaried worker, plus one week for regular attendance at Council meetings, thus making possible four weeks' vacation.

VIII. *Personnel Administration*

a. Personnel meetings of the Council are held yearly in January.

b. The entire force is considered individually and according to the needs of each department.

c. Promotions and demotions are made by the Council.

d. Council decides who shall be placed on salary basis.

e. No salaried employee can be discharged except by action of the Council.

A Democratic Test Necessary

The foregoing analyses of the different types of plans for employee representation and industrial democracy afford a fair cross-section of the movement. They are typical and representative of all phases. They are also authoritative, as they have been submitted for approval to the various corporations named. Certain other outstanding plans have also been analyzed as a basis for conclusions as to how far the movement has, in a few unusual instances, advanced towards democracy in industry. All of these types may now be measured by fundamental standards and principles of industrial democracy.

VI

LEADING EMPLOYEE REPRESENTATION AND CO-OPERATIVE PLANS AS MEASURED BY THE FUNDAMENTALS OF INDUSTRIAL DEMOCRACY

The essential fundamentals of industrial democracy and of representative government in industry have been reviewed. The machinery of representative government, and the rights and safeguards to employees, together with the underlying principles of typical as well as outstanding plans of employee representation and cooperation which are at present in active operation in some of the leading industries of the country, have also been described and analyzed in detail. It now remains to determine the degree to which the plans in force measure up to the minimum requirements of a system of genuine industrial democracy. This can be accomplished by applying the test of the essential principles and methods of democracy in industry to the plans which are representative of the different phases of the employee representation movement in this country. The extent to which this movement is, in general, democratic will then be at once apparent. The plans which are the most democratic in principle and operation will also stand out prominently in comparison with the others.

Collective Bargaining and Cooperation Under Union Agreements

No comprehensive plan, except the unusual "Golden Rule" procedure of the A. Nash Company, Inc., completely accepts the labor union as the basis of collective bargaining. Only quite recently have the employees of this company, without reserve, entered a labor organization. They did so at the urgent request of the President of the Company, Mr. Arthur Nash, who declared that they should join the Amalgamated Clothing Workers because "Men are only strong collectively; otherwise, they are exposed to greed of exploiters." [1]

Since the organization of the Company in 1919, the firm had been working on an "open shop" basis; or, in other words, up to the year 1926, there was no collective bargaining as it is understood in the labor union sense. The Christian philosophy of Mr. Nash induced him to increase the wages of the workers, improve their working conditions and share with them the enormously increasing profits of the corporation. He called this cooperative arrangement whereby workers and capital investors jointly owned and controlled the industry, a "Golden Rule Agreement," based on the principles of the "Sermon on the Mount." Up to the end of 1925

[1] For interesting accounts of the dramatic unionization of the A. Nash Company, see Seventh Biennial Report of the Amalgamated Executive Board, 1924-1926, p. 91; *The Advance*, Aug. 14, 1925, Dec. 11, 1925, Jan. 1, 1926; and *New Republic*, Mar. 10, 1926.

there was not only no desire on the part of the workers to join labor organizations, but rather a considerable manifestation of opposition to their introduction in the Nash plant.

In the summer of 1925, a meeting was held at Olivet, Michigan, conducted by leaders of the Church, who were interested in the subject of the Christian Social Order in Industry. Mr. Sidney Hillman, President of the Amalgamated Clothing Workers, other Amalgamated officials, and also representatives of the Nash Company were asked to attend conferences and participate in the discussion. The ideals and principles of labor organization as practised by the Amalgamated were fully reviewed and contrasted with the operation and results of the "Golden Rule" philosophy. The leaders of the Amalgamated argued for the union, while the opposition stated that the "Golden Rule" was better and would ultimately supplant the union. Nevertheless, a resolution was adopted, upon detailed evidence of conditions in the Nash plant, calling for an investigation of the situation.

Mr. Nash, during all the successful years of the firm's history, had been hailed as an "open-shopper," and an "anti-union" employer. At a certain meeting of business men, after the Olivet conference, he was congratulated as the pioneer of the idea which would ultimately defeat and vanquish labor unions. This, he declared, hurt and piqued him to the extreme. He believed sincerely that the "Golden Rule" was as good a method of practising indus-

trial democracy as was possible, but had never thought that he was thereby promoting opposition to labor organizations. After the events at Olivet and the public remarks of business men that he was an "open-shopper," he began earnestly, therefore, to work for the unionization of his employees by the Amalgamated Clothing Workers of America.

On December 1, 1925, Mr. Nash and Mr. Hillman conferred in Washington, and it was decided to arrange a meeting of the Nash workers, at which both would plead the cause of the union. At this meeting, which took place the next week in the Schubert Theatre at Cincinnati, many employees, but especially executives and officials of the company, argued against the proposition. It was then that Mr. Nash, at a dramatic moment, took the floor and, with all his religious ardor and zeal, pleaded for the cause of the union.

The main thesis of his address was that wage-earners must pull together; that no material gain was in prospect for his workers by joining the union, but the greater gain of helping other workers whose worldly condition was relatively poor; that industrial democracy was as essential as political freedom, and that by doing all that wage-earners could do, to counteract exploitation and tyranny of some of the employing classes, this democracy and good-will on earth would be promoted.

Mr. Nash urged his employees "to take inventory of our exact position in the great scheme of things as they now exist." He asked if the company was

really part of a great labor movement "or have they separated themselves by a wall," and satisfied themselves that their storehouses were full—"and let the rest of the world solve its own problems." He said:

As I see it every move on our part to isolate ourselves from the great labor movement or to shirk its responsibilities would be the personification of selfishness itself, just as much as it is for our great nation to say "Our problems are solved. We will build walls around ourselves and isolate ourselves from the rest of the world." The great mass of tailors in this world have only one channel through which they can make themselves heard. That channel is organized labor. Are we to draw our self-righteous robes about us and take a "holier than thou" attitude and not help organized labor in this struggle up and forward for the great mass of laboring people?

Are we to be held up as an example of an "open shop" and as an argument why avaricious organizations of capital should be allowed to exploit their laborers and grind their dollars out of the very sweat and blood of our brothers and sisters in their factories, or are we to join wholeheartedly and unreservedly with this great group of fearless, organized workers who are laboring to "loosen the bonds of wickedness, to undo the heavy burdens, to let the oppressed go free and to break every yoke. . . ."

Fellow workers, the time has now come when we must demonstrate to the world that there is a way of good will, a way of cooperation, a way that will lead to the higher plane of peace on earth and good will among men. . . .

This cannot come through warfare, nor through pulling in opposite directions. It can only be obtained by cooperation and mutual concessions. . . .

The work of the organized labor movement as the Amalgamated sees it is to bring the precepts of the Golden Rule

into the daily working lives of the masses of men and women. . . .

We have solved our problems so far as our relations with each other are concerned, but the question that I think we should face squarely today is what are we doing for the rest of humanity. . . .

The point of view of Mr. Nash finally prevailed, and as the result of a vote, the 2200 employees at the meeting joined the Amalgamated. Since that time, the plants of the company have been completely unionized and all their cooperative activities are being carried forward on this fundamental basis of industrial democracy. The coordination of the previous Nash plan and the union, it is stated, has resulted in greater efficiency and productiveness.

The cooperative plan of the Baltimore and Ohio Railroad, which has been accepted by the Northwestern, the Chesapeake and Ohio, and the Canadian National railroads, also proceeds upon the basis of the standard railway shop craft unions. Thus far, joint activities under this plan have been restricted to the shops of the railroads, but it is now being urged by employees in a more comprehensive form which would include all classes of railroad workers. When this extension comes about, it will constitute one of the best examples of detailed, technical, cooperative action to eliminate waste and to increase production, founded completely on the labor union as the basis of collective bargaining and cooperation. As far as this undertaking goes at present, it is a joint affair between

railway shop unions and railroad management to reduce operating costs, to regularize and extend employment, and in general to add to the productive efficiency of the carriers where it is in operation. The progress made and the results so far accomplished under this plan demonstrate the desirability and practicability of the adoption by industry in general of a program of union-management cooperation.

The plan of the Southern Railway to reduce the important items of costs of conducting transportation is also based on a formal agreement between railroad management and the regular labor organizations in engine and train service. It has been adopted as an experiment to cover the three-year period, February 1924 to February 1927. This is in reality a cooperative arrangement of engine and train service employees, organized on a union basis, with the management of the road, to reduce train-mile, ton-mile and passenger-mile costs of operations, with the understanding that employees directly responsible for transporting freight and passenger traffic shall participate in any net revenue gains arising from the lowering of such costs. In a restricted way, this cooperative arrangement is a practical application of the claim for greater compensation for increased work and productive efficiency, so strongly emphasized by the Brotherhoods of Locomotive Firemen and Engineers in pre-war arbitrations, and by all classes of employees in the important cases before the former United States

Railroad Labor Board, involving wage-reductions in 1921.[2] The principle involved is the same as in the "B. & O. Plan," namely, that through joint effort of management and men, costs may be lessened and waste eliminated, and that employees, as the reward of their increased work and productive efficiency, should have a participation in the gains secured.

The cooperative plan of the Philadelphia Rapid Transit Company, "the Mitten Plan," was intended originally to be inaugurated under labor union auspices. When it was put into operation in Philadelphia in 1911, there was factional fighting, however, in the local division of the Amalgamated Association of Street and Electric Railway Employees, to which the employees belonged. A certain group had been suspended and had founded the Philadelphia Street Carmen's Union. There was also strife between the Amalgamated and a rival organization, the Keystone. At that time it was estimated that about one-half were divided between the Keystone union and those who were not affiliated with any labor organization. Both the Amalgamated and the Keystone organizations agreed to the cooperative plan proposed by Mr. T. E. Mitten,

[2] See pp. 307-312. Also Proceedings and Exhibits before Arbitration Board, New York, 1913, between Locomotive Firemen and Railroads in Western Territory; and before Arbitration Board 1914-1915, between Locomotive Engineers and Firemen and Western Railroads, Chicago, 1914, 1915. The Proceedings in these cases were published by the former U. S. Board of Mediation and Conciliation which was in existence from 1913 to 1920, under the auspices of which the boards of arbitration referred to above were established.

who, at that time, had been placed in charge of the Company. As part of the plan, it was stated that the Company would deal with the labor organization which could secure the support of two-thirds of the employees for the plan, and would also deduct or check-off the union dues from the revenue available to employees under the plan.

The attitude of the Company was set forth in its cooperative plan booklet of 1911, as follows:

> This management does not take a position either for or against either of the organizations having membership among its motormen and conductors, but it is desirous of securing lasting peace and the earnest cooperation of its motormen and conductors, and that by the path of least resistance. If, therefore, a large majority of the motormen and conductors (say two-thirds) desire that this management deal with its motormen and conductors as an organized body, no lasting peace or unity of effort can be expected until this demand has been met and fairly disposed of. This management cannot, upon the other hand, so interfere with the personal liberty of any man in its employ as to arbitrarily require him to become a member of a labor organization. It can, however, in all fairness, pay from the sum representing 22 per cent of the gross passenger earnings that amount which represents the dues of all motormen and conductors in a labor organization if that be the expressed desire of the large majority.
>
> The desire of two-thirds of the motormen and conductors expressed by secret ballot, under conditions which insure a fair count, may in all justice be considered as binding the majority to bear their share of such a tax.
>
> This management has, therefore, decided that upon a proper application being made by either or both of these organizations, a vote will be taken under such regulations as will insure a fair election; this management undertaking,

upon a confirmative vote of two-thirds of its motormen and conductors, to enter into an agreement with the organization receiving such vote, which agreement shall conform both in substance and detail with the plan herein outlined.

In the event of an agreement being entered into with the men as an organization there will be no necessity for the wearing of union badges, nor of the disturbing influence of organizers or collectors of dues for the reason that the amount representing the dues of every motorman and conductor would then be paid by the company to the organization.

The Mitten management, in other words, proposed not only to inaugurate its cooperative arrangement on a labor union basis, but also to have complete unionization, under which the company would deduct, or "check-off," union dues from the pay-roll.

The Amalgamated Association requested a vote, and a secret and disinterested ballot was taken. Because of factional divisions which prevailed, however, the Amalgamated polled about 350 votes short of the required two-thirds. The company, therefore, had to put the plan in force upon an individual basis through a cooperative association of employees, but it stated that upon petition of one-third of the employees another vote would be taken, and the plan would become operative upon the basis of any labor union which could command two-thirds of the votes of the employees. This offer has been held open by the company from the year 1911 to the present time, but there has been no request for a vote from the Amalgamated Association or other

labor organization.[3] As the employees of the company, during the intervening period, have collectively purchased from their participation in profits more than a practical control of the common stock of the corporation, they probably have acquired the assurance of being able to protect their interests without union affiliations and have passed beyond the point of an appeal to their self-interest by an outside labor organization.

These are the only plans of employee representation or cooperation where there has been complete acceptance of the labor union as the basis of procedure, either as a matter of practical operation as in the case of the Nash Company, the Southern Railway, and four railways accepting the "B. & O. Plan," or with a declaration, as in the case of the Mitten Plan in Philadelphia, that the union would be accepted when a certain proportion of employees indicated their desire to have the union represent them.

In the case of several other companies, which have adopted unusual plans of employee representation and partnership, where union agreements with certain classes of workers were in effect before the inauguration of the new democratic order these agreements have been continued. Additional agree-

[3] See copies of Cooperative Plan issued by the Philadelphia Rapid Transit Company, 1911-1918, 1925, 1926.

For a detailed account of the conditions existing at the time the plan was adopted and for three years after, see section of testimony before the U. S. Commission on Industrial Relations, entitled "The Cooperative Plan of the Philadelphia Rapid Transit Co.," Vol. 3, pp. 2731-2816.

ments, or further unionization of employees, these companies state, would also be entirely satisfactory. These noteworthy instances are the Dennison Manufacturing Company, the Dutchess Bleacheries, Inc., and the Rockland Finishing Company, the latter being a subsidiary of the former. The attitude of these companies is to recognize and deal with unions of their employees, and, so far as employees may wish, to coordinate unions with their systems of employee representation and partnership. Employees are free to join unions and the companies do and will treat with them on this basis. When the new plans were adopted, there was no change in labor union agreements then in existence. In the case of the Dutchess Bleacheries and the Rockland Finishing Company, these agreements were with folders, a highly skilled class of employees. The Dennison Manufacturing Company makes agreements regularly with compositors, pressmen, electrotypers, electricians, guillotine paper-cutters, carpenters and other classes of employees. Both of these companies take the position that if the employees believe that they can acquire any benefits from unions, they should be free to organize, and the companies will recognize and deal with their organizations. The Chairman of the Central Works Committee of the Dennison representation plan and partnership arrangement is reported to be the chief labor union leader of the community. He is also a member of the committee of three, which, under the cooperative arrangement, each year selects em-

ployees to go on a list to be given Employee Industrial Partnership Certificates.

The attitude of the Pennsylvania Railroad towards labor organizations in its plan of employee representation is unique. There is no discrimination against employees on account of membership in labor unions. They can freely affiliate themselves with labor organizations, and, if they believe themselves discriminated against, may apply for relief through joint-machinery of adjustment to a final arbitration by disinterested parties. The Company, before and since the war, has also recognized engine and train service organizations, or, in popular terms, the "Big Four" railway "Brotherhoods." It also states that it will deal with other labor organizations which proceed upon the same principles as the Brotherhoods, or which are open shop organizations, opposed to sympathetic strikes, restriction of output, and jurisdictional disputes, and which presumably are not affiliated with the American Federation of Labor. In a recent interview, General W. W. Atterbury, President of the Pennsylvania System, explained the policy of the Company under its employee representation plan as follows: [4]

I then asked the General bluntly if he was fighting certain labor organizations merely because they were labor organizations; was he opposed to organized labor as a principle?

"I don't know why anyone should ask that question," he

[4] Article in *Success Magazine*, April 1926, by Sherman Rogers, entitled "That Man Atterbury."

answered with feeling. "I have dealt with the Brotherhood organizations for years. Our relations are amicable, and I don't hesitate to say that the officers of the Brotherhoods have my wholehearted indorsement."

"Fair enough," I answered. "Would you, if the organizations you are opposing at the present time were to espouse the same policies that are now in force in the train service organizations, deal with them as frankly and as closely as you do with the Brotherhoods?"

His answer was instantaneous and decisive: "Yes, and would be very glad to do so."

"When I left for France," he added, "on the Pennsylvania Railroad there were no organizations except the train service and an independent order of telegraphers. When I returned from France I was confronted with a situation that nearly stunned me. I found that the Pennsylvania Railroad Company was no longer in a position to work with its employees in a manner that gave the freedom of expression we had enjoyed before. We found a deplorable lack of coordinated efficiency; we were met at every corner by local jurisdictional squabbles on who was to do this job or that job, and, last but not least, we found that if a strike occurred on a railroad out West that might be only a hundred miles long, the workingmen on our railroad could be pulled out in sympathy.

"The more I studied the situation the more calamitous it appeared. If I had any hesitancy at all it was dispelled when I read the declaration of William Z. Foster, who was at that time organizing the steel industry, wherein he declared, 'The twenty-four steel unions should be so allied with the miners' and railroadmen's organizations that should it come to a strike these two powerful groups of unions would rally to their aid and paralyze the steel industry completely by depriving it of those essentials without which it cannot operate, that is, fuel and rail transportation.' How effective such assistance would be was well indicated by the speedy and wholesale shutdown of mills during the outlaw railroad strike in

April, 1920. When I read that declaration by a member of a recognized labor organization, I could vision what would finally take place if these organizations gained full control of both steel and rail."

"But," I answered, "why didn't you have the same objection to dealing with the Brotherhood train service, which is composed of national organizations practically in control of the train men on every railroad in the country?"

"Well," he said, "it seems a contradiction, but, as I have already told you, there is no closed shop in the Brotherhood organizations. The railroads of the country are protected by numerous conference and reviewing boards. Under these circumstances, right is bound to come to the surface, reason is bound to prevail before a controversy reaches the disruptive stage. But in my opinion that would not be true where closed shop, sympathetic strike, jurisdictional dispute and the refusal-to-arbitrate policy were in force; and that was what we were confronted with.

"It seemed to me that these conditions would bring about chaos on railroads; and from the time I returned until now I have spent every possible moment in an effort to work out a plan with our employees where they would have every protection that they could possibly receive under the strongest available union. To meet the issue fairly we have to place the Pennsylvania Railroad Company in a position whereby we would not have the power of veto."

Up to the present time, so far as the writer has been able to ascertain, no labor union, other than the engine and train service "Brotherhoods," has attempted to secure recognition or made a test case of General Atterbury's avowed policy. The attitude of the Company, in the elections of 1921, after the decision of the former Railroad Labor Board in the "National Agreements" case, in refusing to

permit employees to vote for unions, instead of individuals, to represent them, would seem to be prima facie evidence of the hostility of the Pennsylvania management to labor organizations as the basis of collective bargaining. The refusal of the Company to obey the decision of the Railroad Board that this should be done adds further to this evidence. The toleration by the Company of employees who are members of unions, or permitting them to serve on grievance committees as individuals, is fundamentally different from acceptance of the union as the basis of collective bargaining. A careful study of the pronouncements of the Company and its officials when compared with its practices leads irresistibly to the conclusion of inconsistency. Agreements are negotiated on the one hand with the representatives of the "Railway Brotherhoods" which act in concert and threaten or actually vote strikes covering all the railroads in a certain territory or for the country as a whole, and then on the other hand the declaration is made by the Company that it is opposed to other organizations of its employees because they favor, or have engaged in sympathetic strikes or jurisdictional disputes.

The conclusion of the unbiased student must be that this plan accepts unions among its employees only so far as it has to, or, in other words, only so far as unions may have sufficient economic power, as in the case of the "Brotherhoods," to compel recognition. This conclusion is further strengthened

by the fact that the new railway labor legislation recently enacted by the Congress provides for Boards of Adjustment of Grievances, and machinery for conference, mediation, conciliation, and arbitration, or, in other words, furnishes complete safeguards against the policies of labor organizations of which General Atterbury has complained. There would now seem to be no valid reason why the Pennsylvania Railroad should refuse to make its plan genuinely democratic by freely recognizing the unions of the employees as the basis of collective bargaining and cooperation.

Discrimination Against Employees Because of Trades-Union Membership

Although only a very few plans of employee representation, as shown in the preceding analyses, accept the labor union as the basis of organization and procedure, almost all have inserted clauses in their constitutions stating that there shall be no discrimination against employees who may be members of labor organizations. Many plans also add special provisions for protecting union members among the employees who may feel that they have a grievance on that account, and to insure proper redress in the event that they should meet with discrimination through acts of unsympathetic foremen or officials. All of the outstanding and typical plans have provisions of this description. Although there is record of many complaints from employees

that these safeguards are not practically carried out, it may be stated that theoretically, at least, labor union members are free from discrimination.

On the other hand, the absence of accompanying provisions from all plans, other than the Mitten or Philadelphia Rapid Transit Company, the Dutchess Bleacheries and the Dennison Manufacturing Company plans, to the effect that the company is willing to accept the labor unions of their employees whenever a certain proportion indicate the wish to be so represented, is in itself conclusive evidence of the lack of the fundamental guaranties of industrial democracy in the great majority of these plans. It shows clearly that the companies which have inaugurated these plans of employee representation are opposed to or unsympathetic with labor unions. It also clearly demonstrates that they desire to restrict the organization of their employees to certain single plants or groups of plants or industrial units, operated by one corporation. It is the same indefensible situation which would occur under political democracy if a certain group of citizens of Virginia, or in any State, should be in control of the State Government, and should enact legislation providing that all of the citizens might organize, vote, and have representative government in the State of Virginia, but only the autocratic group in control could affiliate themselves with similar groups in other States, or organize and control a general or national government, having certain powers and jurisdictions over those who could not participate

in it. Guaranties against discrimination because of membership or non-membership in labor unions or other organizations, in other words, are undemocratic and unacceptable, unless accompanied by the right to employees of complete freedom in organization and selection of representatives for collective action.

Definite Organizations

The lack of definite, independent, basic organizations of employees with distinct activities and resources, among all plans of employee representation, except those founded upon labor unions, the Mitten Plan, Dutchess Bleacheries, the Dennison Manufacturing Company, and possibly the Wm. S. Filene Sons Company, stamps them as unacceptable from the standpoint of industrial democracy. In most cases the basic organization, as in the case of the Pennsylvania Railroad and other representative plans, is designated as "association," "fraternity," or other name, but it is usually merely a name for a certain group of employees engaged in collective bargaining. There are no dues and no resources for independent action. It means only, as a rule, that the employees in certain occupations have the right to confer in their own interest and to vote for the selection of representatives in the scheme of self-government. While engaged in the work of self-government they are paid by the company. They have no funds to enable them to employ assistance, to protect them against economic necessity

in the event of disagreement with the company, or to provide through their own resources against the contingencies of accident, sickness, disability, old age or death. Even meetings of employees to discuss grievances or annual conventions for the consideration of matters of common interest are paid for by the company and almost without exception held under the auspices of the company, or are attended by representatives of the company.

It is obvious that democracy cannot exist without absolute independence and without that freedom and effectiveness of action which is based upon the pecuniary and other resources of the electorate. There can be no democracy where one group of the electorate is financially and otherwise dependent upon another group. So far as most employee representation plans are concerned, this undemocratic situation exists because the industrial and other concerns interested do not extend to their employees the fundamental guarantee of freedom in organization and election of representatives, and in the maintenance of their own organizations. This inconsistent attitude on the part of the great number of employers obviously arises from their unstated but no less glaringly apparent opposition to labor unions as the basis of collective and cooperative action by their employees.

Democratic Wage Standards

Practically none of the plans of employee representation with the possible exception of the Columbia

Conserve Company have advanced to the point where they have been able to consider really democratic standards of compensation for employees, or, in other words, rates of pay sufficient to provide for standards of living, of health and modest comfort among the lowest grade of industrial workers with differentials above these minimum standards for the skill, hazards, responsibilities and productive efficiency of the higher gradations of employees. (The Ford Motor Company, although fully measuring up to democratic wage standards, has no system of employee representation.)

This is no special ground, however, for criticism of the outstanding cooperative plans. Emphasis, at the beginning, has, quite naturally, been placed upon the advantages of democratic action and collective participation, according to existing wage-rates, in the pecuniary gains arising from cooperation. The distribution of these gains so as to bring about greater justice in the basic rates of compensation among the various grades of employees will undoubtedly come in time, and will be accepted by the more highly skilled employees as essential to the highest productive efficiency of industry. The only tendencies in this direction so far which have been discernible from the operation of existing plans has been the declaration of the Filene Management for a legal minimum living wage, the recent request of the employees of the Dennison Manufacturing Company for a living wage, which was deferred for later action, and the policy of the Bank of Italy

under its plan of distribution of earnings to employees as a basis of purchasing stock to give special advantages to the lower-paid employees (under $2400 per annum) in the acquisition of stock.

Among all plans of employee representation, basic rates of compensation of employees are practically determined by supply and demand—by agreements with labor unions in the few cases where unions are recognized, and otherwise by the guarantee or acceptance of the going or "competitive rates" in the communities in which the plans are operative. The Mitten Plan in operation in the Philadelphia Rapid Transit Company is unique in that it guarantees the existing standard of real wages by regular adjustments in money rates of pay according to fluctuations in prices, or in the cost of living. A bureau has been permanently established in connection with this plan which makes a continuous study of the cost of living of workingmen's families by scientific budgetary methods. The plan of the Dennison Manufacturing Company also carries a provision for changing rates of pay in accordance with fluctuations in living costs, but it is not used in a permanent, regular way as in the case of the Mitten Plan, with the object of preventing any lowering of real wages. A similar feature is a part of the plan of the Milwaukee Electric Railway and Light Company.

The employees of the Ford Motor Company, as has been stated, have no system of representation in dealing with management, but the wage-policy of

this Company is thoroughly in accord with democratic standards. The lowest grades of employees, in other words, receive adequate compensation according to democratic requirements, and the more skilled and productive are paid higher rates. This fundamental policy of the Company has recently been extended by the remarkable innovation of a five day work week, with the same compensation for employees as under the former six day week.

Cooperation and Participation in Profits

Although very little consideration has been given thus far in employee representation plans to the adequacy of wage rates, especially among unskilled and semi-skilled workmen, for meeting the requirements of wholesome democratic standards of living for wage-earners and their families, widespread emphasis has been placed upon sharing the results of cooperation between employees and management. Among the most acceptable plans in operation, the practice is growing of giving to employees, in addition to their regular compensation, a degree of participation in the net gains arising from increased work and productive efficiency. A great many companies have individual bonus systems and schemes of profit-sharing. These are primarily put forward, however, to stimulate the interest and productivity of individual employees and cannot be classed with collective schemes of cooperation between men and management based upon democracy and partnership

in industry. Among plans for employee representation which advance beyond the establishment of merely a system of collective bargaining for the workers to the other fundamental requirements of democracy in industry, the following are the most noteworthy so far as cooperative participation in earnings is concerned:

1. *The Mitten or Philadelphia Rapid Transit Company Plan*
This plan provides for a direct participation and incentive to employees for cooperation on a definite and stimulating basis, or by granting a 50 per cent participation in Management's Fee or share in net earnings, payable after returns to capital have been met.

2. *Wm. S. Filene Sons, Department Store, Boston*
The avowed aim of this company is by cooperation to develop volume of business and larger net profits, and the participation of employees (individually and collectively in net profits) is determined arbitrarily by judgment of Management. During the past 11 years, employees have received, on an average, slightly more than 40 per cent of net profits. There is no definite method, however, of determining an employee's share. Sales persons are given a spur through "commissions" or individual bonuses for sales. Various definite schemes of participation were tried by Management, as individual bonus, etc., but it was finally decided best after many years of experience not to have a "definite" bonus or participation, as Management claimed that employees tended to think of it as an integral part of their earnings and to spend it in anticipation. However practical this decision may be, it cannot be considered democratic, as the employee is made entirely dependent upon Management's decision, and is given no definite assurance or safeguards.

3. *B. & O., C. & N. W., C. & O. and Canadian National Railroad Plans*

No participation thus far has been given to employees in increased earnings arising from cooperative effort beyond the advantages which accrue from greater regularity and volume of work. Employees are now requesting a direct pecuniary share in net gains arising from their increased productive efficiency.

4. *Southern Railway Plan*

Direct participation in increased earnings is guaranteed to engine and train crews to the extent to which certain specified items in transportation costs are reduced as related to gross revenues.

5. *The So-Called "Rockfeller Plan" of the Colorado Fuel and Iron Company*

No direct pecuniary advantages from cooperation of employees but indirect advantages in the way of housing, sanitation and recreational facilities, with possibly some progress in better living and working conditions.

6. *Dennison Manufacturing Company Industrial Partnership Plan*

All net profits after the payment of fixed capital charges go to employees who are given an equivalent amount of partnership stock which bears dividends of 7 per cent. The managerial and executive forces receive in this stock the equivalent of two-thirds, and general wage-earners the equivalent of one-third of net profits of the company.

7. *Dutchess Bleacheries and Rockland Finishing Company Partnership Plan*

All net profits are divided equally between management and employees, payable one-half in cash and one-half in preferred stock.

8. *The A. Nash Company, Inc. ("Golden Rule") Coöperative Plan*

Employees have been given participation in profits on a 50-50 basis and also have been given stock dividends. They now receive more than one-half of regular dividends.

9. *Ford Motor Company Bonus Payments*

No participation in profits beyond individual bonus payments, which were originally conditioned upon personal habits of thrift and living standards of employees.

10. *Bank of Italy*

Employees receive 42 per cent of the earnings of the bank in the form of stock in the bank, in proportion to their own individual earnings assigned to buy bank stock. Part of the 42 per cent of the net earnings is used to provide pensions, health and life insurance, and balance applied to the purchase of stock for employees.

11. *Boston Consolidated Gas Company*

Dividends on pay roll are declared in accordance with rate paid on stock of the company, and these pay-roll dividends are distributed to certain employees (about 60 per cent of total) selected by Board of Directors in the form of stock of holding company on which employees receive dividends.

12. *Columbia Conserve Company*

Common stockholders receive a cumulative dividend of 10 per cent; employees a non-accumulative wage dividend of 10 per cent; an additional ten per cent of profits is then set aside for a pension fund for employees; and the balance of profits is then given to employees for the purpose of purchasing and holding common stock collectively.

In the case of the plans of the Pennsylvania Railroad, Standard Oil Companies of New Jersey and

Indiana, the International Harvester Company and other typical employee representation plans, the employees are not given any participation in profits as the result of cooperative effort. The policy is adopted in many cases, however, of attempting to stimulate their interest in the company by offering them special inducements to buy stock, and by providing without cost to the employees, health, accident and life insurance, and old age and disability pensions. Obviously such measures are less costly to the company than provisions for sharing in profits, arising from joint efforts of men and management, on a democratic, partnership basis. The underlying motive is undoubtedly the same as that which leads employers to provide systems of welfare for employees because they consider it profitable from the standpoint of the stability and effectiveness of their working forces.

The Ford Motor Company method of bonus payments practically falls in the same category. Despite its beneficial effects from a human or economic standpoint, it is not democratic. In its original form it was an autocratic forcing of employees to follow certain desirable personal habits and standards of living in order that they might receive certain rates of compensation. It stimulated personal and social improvement through economic coercion. These methods are no longer necessary and have been discontinued. Dependence is not placed by the Company, however, upon principles of democracy or cooperation, but upon the improved physical and

mental ability of its employees to produce a greater return.

Employee Stock Ownership and Control of Business

The ultimate democratic ideal is for the operating forces of an industry to own and control the undertaking through gradual acquisition of ownership. The employee representation plans which meet this supreme test of democracy in industry are few in number but exceedingly significant from the standpoint of the industrial democracy of the future. They also demonstrate the possibilities of employees using their share of cooperative gains *collectively* in acquiring the stock of companies for which they work. The pioneer plans in meeting this test of industrial democracy are only five in number, and their achievements may be comparatively stated, as follows:

1. *Mitten or Philadelphia Rapid Transit Company Plan*
   Employees have used their share of cooperative gains in collectively purchasing the common stock of the company in the open market until they now own practically a control, or more than 33-1/3 per cent of the common stock. They also have purchased a considerable block of preferred stock of the company.

2. *Partnership Plan of the Dennison Manufacturing Company*
   Managerial and Supervisory Employees absolutely control the company through partnership stock purchased collectively from profits. Wage-earning employees receive one-

third of profits in non-voting stock. A small number, of course, have opportunity of becoming voting partners through promotion to supervisory and managerial forces.

3. *Bank of Italy. Stock Acquisition Plan*

   Employees are acquiring control of bank gradually through participation in profits by using their share of profits and part of their own earnings in buying stock of the bank in the open market.

4. *The A. Nash Company, Inc. ("Golden Rule" Method of Cooperation)*

   Employees now own majority of stock and have control of company.

5. *Columbia Conserve Company*

   Employees are now legally acquiring control of the company by purchasing common stock from the proceeds of their participation in profits; actually employees now control through membership on the Board of Directors.

These five plans afford the only examples from the 800 or more plans of employee representation and cooperation now in operation in this country under which the employees are using their shares in cooperative gains to acquire ownership and control and to realize complete democratization. In the case of the larger number of companies, of which the International Harvester, Standard Oil and United States Steel Corporations are representative examples, employees who have individually received stock as a share in profits, or who have been induced to buy stock by special offer of the companies, have, it is true, in cases where they are sold common stock, voting rights, but these plans of employee

stock purchase, where securities are delivered outright to individuals, have not, as a rule, been successful. Under many plans, stock purchases of employees are restricted to preferred stock which carries no voting rights. In any event, the stimulus to employee ownership and control is not present. Neither is there any collective stimulus or desire in this direction. Individual employees are inclined to dispose of their holdings for profit when prices advance, or for the purpose of securing needed funds in times of emergency. In the circumstances, therefore, the tendency is not for a cumulative growth in employee stock holdings, but rather the reverse.

Employee Representation on Boards of Directors

The democratic control or influence upon industry of employees is somewhat more widely recognized in employee representation plans by voluntarily giving to them representation upon Boards of Directors than it is by offering them the privilege of acquiring control through stock ownership. Even where employees do not own any stock whatsoever, there are plans under which they are given representation among the directors of the company. While such schemes are commendable and worthy of imitation as a basis for better understanding and cooperation, they cannot be said to meet democratic requirements acceptably for they represent a vol-

untary act of management which can be withdrawn at any time. It is advantageous to both employees and employers to have representatives of the former on the Board of Directors of the corporation, and, in the absence of stock ownership by employees, the precedents in this respect might well be extended. The real democratic guarantee to employees consists, however, in offering to them the opportunity gradually to acquire ownership of industry through stock purchases *collectively* from their earnings or participation in profits or cooperative gains.

Employees have representatives on the directorates of the corporations enumerated below. On the first five, such representation is through the voluntary action of the owners; in the last three, it is a right which the employees have obtained through stock purchases:

1. *Wm. S. Filene Sons—Cooperative Plan—Department Store*

   The proprietors permit employees to have a majority of the Board of Directors. There is a change of personnel annually. This control is more apparent than real, however, because of annual change in employee-directors. The intent is two-fold: first, to give directors the fresh viewpoint and stimulus of employee ideas, and, second, to give democratic participation to employees.

2. *Dutchess Bleacheries—Partnership Plan*

   Under this partnership plan employees are allowed to select one representative on Board of Directors of Company. The public is also given representation through one director.

3. *Boston Consolidated Gas Company—Profit-Sharing Plan*
   Profit-sharing employees are allowed by the owners one representative on Board of Directors of company.

4. *Louisville Railway Company—Cooperative Plan*
   Stockholders permit cooperative association of employees to select annually a representative on the Board of Directors of the company.

5. *Columbia Conserve Company*
   The Board of Directors is composed entirely of employees—both wage-earners and executives. This is provided for under plan of cooperation. Employees are also gradually securing legal control of Company through purchase of common stock.

6. *Mitten or Philadelphia Rapid Transit Company Plan of Cooperation*
   Employees have representation through collective ownership of common stock of company. At the present time they have two regularly elected directors on the Board of Directors.

7. *Dennison Manufacturing Company—Partnership Plan*
   Managers and supervisory forces name Board of Directors through their collective possession of Industrial Partnership Stock, representing their participation in net profits.

8. *The A. Nash Company, Inc. ("Golden Rule" Method of Cooperation)*
   Employees control Board of Directors through ownership of majority of shares of common stock of the company.

Ultimately, the employees of the Bank of Italy will acquire a controlling interest in the common stock of the bank through the profit-sharing scheme extended by the company. In order to prevent drastic changes arising from a too abrupt transition

in ownership and control, however, stock acquired for employees is for a period of twenty years (from the inauguration of the plan) held and voted by trustees. Within this period employees will be in control, and through their trustee, will control the bank.

In addition to the plans being especially considered in this study, there are also others forms, which in connection with employee stock-purchase plans, or systems of employee representation, permit, under varying conditions, employee representation on boards of directors. These companies are General Ice Delivery Company, Detroit; Pittsburgh Coal Company, Pittsburgh; Butler and Harmony Consolidated Railway and Power Company; Procter and Gamble Company; Studebaker Corporation, and the Marr Grocery Company, Denver, Colorado. There may be still others, but these constitute all for which data were obtainable for the present study.

Customer and Employee Provision of New Capital

It has already been pointed out that the final, but perhaps the most important, fundamental requirement of the complete realization of democracy in industry, consists in the elimination of the autocratic domination of the so-called investment banker, who, through his control of facilities for credit and capital, has not only indefensibly dominated industrial policies, but also has exacted for

his services a too large proportion of the productive gains of industry. The only plan of employee representation and cooperation which has thus far attained to this democratic standard, however, has been the Mitten, or Philadelphia Rapid Transit Company arrangement. Freedom from dependence on investment bankers has been secured by the joint activities of men and management. New capital has been obtained during recent years by purchase of new securities by employees, and by the sale of new securities by employees to car-riders or the patrons of the company. Preferred stock and bond issues have been disposed of through subscriptions taken by conductors and motormen while on duty, and by the direct solicitation of the car-riding and investing public by other classes of employees.

Limited amounts of new capital are also supplied by employees of the Dennison Manufacturing Company under its partnership plan in view of the fact that the underlying arrangements require that the net earnings of the company shall be invested in the business by the employees who are entitled to these earnings, but who accept Industrial Partnership stock in lieu thereof. There is no provision for securing additional capital, however, through the cooperation of employees as a whole, or by the special group in control. Under the partnership plan of the Dutchess Bleacheries the same principle is applied in a more restricted way by the employees accepting instead of all cash a limited amount of the preferred stock of the company as

part of their participation in profits. The Nash Company, under its "Golden Rule" system of operation, has built up its constant needs for additional capital by reinvesting net profits, and, in accordance with their share of these profits, employees have received stock dividends. In none of these companies, however, has any precedent as yet been established, by employee activity in securing new capital in excess of that afforded each year by the share of employees in net profits. The Mitten Plan in Philadelphia constitutes the only example where the so-called investment banker has been deliberately supplanted by a policy under which employees of all classes, either directly acquire a large proportion of new securities, offered by the company, or indirectly, through personal solicitation by employees, the customers of the company absorb a large part of such new security offerings.

Limitation of Employee Representation Movement as Compared With Fundamental Standards of Industrial Democracy

A critical comparison of the outstanding plans of employee representation or of democracy in industry, therefore, affords only one example of a plan which measures up to the last test of industrial democracy or the elimination of the conventional investment banker and his exactions from industry for the service of supplying new capital. As a matter of fact, the number of

qualifying plans becomes smaller and smaller as the democratic tests become more fundamental. Of the total of 800 or more employee representation plans in operation, not one out of one hundred are formed to extend to industrial workers the right even of collective bargaining in an unrestricted way. Very few also recognize the standard labor union as the basis of procedure. With the addition of further tests of industrial democracy the number of acceptable plans rapidly diminishes. Despite this situation, however, several comprehensive plans do remain, and, in their practical aspects and achievements, do constitute a basis of constructive procedure for the future. The discovery of the theoretical worthiness of even one plan in itself gives assurance of the possibility of the general realization of industrial democracy in the coming years.

VII

THE BEST PRACTICAL BASIS FOR A GENERAL CONSTRUCTIVE POLICY

Restricted Scope and Vision in General of Employee Representation Plans

From the foregoing general descriptive and analytical survey of the movement for employee representation or for alleged industrial democracy in this country, it is at once apparent that very few plans hold out any real basis of constructive hope or action. To some extent this is due to the infancy of the movement. It has, to a large degree, been a post-war growth and the time has been comparatively short for the evolution of any comprehensive systems. Primarily, the reason, however, is the restricted way in which plans have been inaugurated and the lack of any sincere desire for genuine democracy in industry as the constraining force of the general movement.

In the main, American plans for employee representation in industry are restricted to the basis of a single establishment or to a group of plants under the same management. There are only a few instances in the entire country of industrial councils which are composed of representatives of different firms or employers.

The attitude of employers who have inaugurated the majority of the plans is also usually, either consciously or unconsciously, selfish and undemocratic. A great many plans have been installed, either as the outgrowth of, or as a check to, possible labor troubles. For this reason, although protesting any inclination to discriminate against individual members of labor organizations, the greater number of the plans have exposed themselves to merited condemnation as being "anti-union" in spirit, or "company-unions." As a rule, no principle of democracy is observed except collective bargaining in a limited form. Other democratic fundamentals —such as participation in profits or cooperative gains, acquisition of stock on a collective basis with representation on boards of directors, and proper principles of wage-determination—are generally lacking. Individual stock-purchase schemes, free pensions, and health and life insurance, and recreational features of many plans are usually not the fruits of a democratic, or even a humane spirit, but rather the result of a business policy which hopes by these methods to secure a spirit of greater loyalty and cooperation and more continuous service from industrial workers.

Despite these criticisms, however, the general movement for employee representation is deeply significant and filled with good omen for the future. The basis of a more democratic order in industry has been laid. Through shop committees and plant systems of collective bargaining a better under-

standing and greater cooperation among employers and employees have been secured. Production has also undoubtedly been accelerated. What is now needed is the spirit and vision of industrial democracy. Its first fruits should be the general acceptance of the labor union as the basis for collective bargaining. This will undoubtedly come as time goes on, and will entirely transform the existing situation. The trend of thought and action is distinctly in this direction. Fortunately also out of the hundreds of alleged systems of industrial democracy which have been started, several comprehensive plans have been evolved. They will serve to point out in a practical way the path for the future. The great mass can accept and follow them and build upon the democratic principles which they have already practically applied. These plans, and one in particular, are the torchbearers which will lead the way towards and demonstrate the practicability of the new democratic order in industry.

The Torchbearers of Industrial Democracy

Five plans stand out above all others as indicating a sincerity of purpose and as offering a basis for future constructive action. Four of these represent an evolutionary growth during the past fifteen years. With only one exception they were inaugurated in pre-war years, when the "American Plan" and other anti-union plans were unknown, and their creators were men of real vision and forward-look-

ing action. This vision and the desire for democratic cooperation in industry have grown with the years, and have found expression in a corresponding expansion in the plans for which they are responsible. These plans are those of Wm. S. Filene Sons of Boston, the Dutchess Bleacheries of Wappingers Falls, New York, the Dennison Manufacturing Company, of Massachusetts, the A. Nash Company, of Cincinnati, and the Mitten, or Philadelphia Rapid Transit Company plan.

The B. and O. Plan

Two other plans also indicate capacity for real democratic growth. These are the so-called "B. and O. Plan" which, as already noted, has been adopted by three railroads, and the Southern Railway Plan. They are based on sound principles of collective bargaining—or union-management cooperation—and of mutual participation in cooperative activities, but they are of such recent origin that they are still in the experimental stage, and it remains to be seen whether they can be expanded to include the other important fundamentals of industrial democracy.

Captain O. S. Beyer, Jr., the industrial engineer retained by railroad employees to develop and administer the "B. and O. Plan," has recently published a summary of the results accomplished, and the objectives now had in view. The following quotations from his article give his estimate of what has

been done through cooperation on a labor union basis and what still remains to be accomplished.[1]

As the cooperative arrangement has been extended from shop to shop, the international unions concerned have had a chance to review it at regular conventions of their membership. Likewise on each railroad where the program is in effect, the men have met in system conventions and taken stock. The net result of these proceedings to date is that at least three hundred thousand union railroad shopmen have officially endorsed union-management cooperation as one of the policies of their organizations. Of added significance is the action of the Brotherhood of Maintenance of Way Employees which in a recent convention went on record in support of the cooperative policy. It has now extended to railway managements the offer to cooperate along the lines developed between the organized shopmen and the Baltimore and Ohio management. This places eight standard A. F. of L. unions representing three-quarters of a million railroad employees behind the policy of union-management cooperation.

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How the men on the job feel about cooperation is revealed by an increasing accumulation of evidence. For example, at the system federation conventions of the Canadian National and Baltimore and Ohio shopmen held during April and May of this year, special committees were appointed to take testimony and report back to the conventions. The reports of these committees revealed briefly: (1) that cooperation had resulted in a decided improvement in the relationship between management and men, thus strengthening the morale of the service, (2) that substantial improvement in tools and working conditions had been effected, enabling increased output of better quality, (3) that considerable

[1] "Three Years of the 'B. & O.' Plan," by O. S. Beyer, Jr., the *New Republic*, August 4, 1926, p. 298.

progress had been made in stabilizing employment and so increasing wage income, (4) that satisfactory progress had been made in developing a sound understanding of the co-operative idea among employees and officers, and (5) that causes ordinarily making for grievances which did arise had been greatly expedited.

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The increased sense of responsibility manifested by employees and managements in one another's welfare is shown first, by the remarkable number of propositions affecting employee welfare and shop efficiency dealt with at the local joint cooperative conferences held every two weeks between the regular union shop committees and the local managements, and second, by the extraordinarily high percentage of these proposals approved by the conferences and put into practice. Up to the present time, on three of the railroads concerned, in round numbers a total of twenty thousand such propositions have been initiated. by both men and management and considered by the joint cooperative conferences. Of these, more than sixteen thousand are now in effect.

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In the direction of employment stabilization good progress can also be reported. Thus on the Baltimore and Ohio for the year 1925 as compared with the preceding year, there was an average increase of 12 days' work for all classes of employees represented by the federated shop crafts. On the Canadian National the progress was equally gratifying. For the Chicago and Northwestern it can be said that with the introduction of the cooperative program early last summer this railroad was able to go through the fall and winter months of decreased railroad revenue without reduction in equipment repair personnel. It has been calculated that through stabilized employment the men on the Baltimore and Ohio have received an increased wage income equivalent to a raise of 2¼ cents in the hourly rate. This has been

a gain decidedly worth while, for not only has it helped improve the morale of the service but it has reflected itself in the more efficient utilization of the entire repair plant, which meant higher and better shop production.

The most important problem now before the cooperative movement for solution is the financial sharing of the gains of cooperation. Labor thus far has been satisfied to take its share in these gains in the form of friendly union recognition, more fair and sympathetic application of the terms of union agreements with management, better working conditions and finally steadier employment. Management, of course, has benefited through better production, improved quality of work, reduced material expense, lower overhead costs, better discipline, lessened labor turnover and hence improved morale.

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And furthermore, after certain standards affecting union status, working conditions, or stability of employment are established, they become the accepted practice and are taken for granted. In other words, they lose their incentive value. So it is necessary to discover some device which will provide a continuous incentive. Such a device is based on the principle of financial participation in the benefits due to cooperation.

There is no blinking the difficulty of solving this problem. Progress, however, is being made. On two of the roads where the cooperative program is in effect, the principle of dividing the gains of cooperation financially has been accepted, and joint committees, assisted by technical experts, are engaged in formulating a method for measuring and sharing these gains. If these committees are successful in solving this problem for the railroad industry, a practical application will have been devised of the new wage principle adopted by the American Federation of Labor at its last convention, namely, that wages should advance in proportion to man's increasing powers of production.

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Innumerable cases are on record which demonstrate conclusively the concern the workers on the job feel for waste in the use of materials, for poor tools and lack of proper production systems or for shortages of supplies, which either necessitate robbing one locomotive to complete another, or digging around scrap heaps to salvage something suitable for a substitute. But what is still more useful is that through their union representatives the workers adopt policies and take action to help in the correction of these deficiencies. Frequently they go further and work out improved methods for doing detail jobs, or for dealing with major operating problems.

This all serves to stimulate management in a new way. The men on the job are helping to set the pace. The premium is upon still better railroading. The men help in ways peculiarly possible especially because of the availability of their independent unions and the leadership they have developed. The energy of management which formerly was dissipated in disputes with organized labor under cooperation is devoted to planning and better operation. Instead of resisting new management devices, the unions encourage them, readily suggest improvements and fall in line when they are discussed and put into practice.

The Columbia Conserve Company—A System of Direct Democracy

The plan and performance of this company affords probably the most complete and perfect illustration of direct industrial democracy which exists today. It is a small establishment, regularly employing about 100 people, and as a consequence, its machinery and method of employee representation are more simple and direct than would be possible in a large industry. In principle, however, it is entirely

comprehensive so far as democratic standards and ideals are concerned. There is no absentee ownership or financial influence. All workers have a direct voice in the government of the industry, including the appointment of their own foremen, department heads and general executives. Provision is made for minimum guaranteed compensation for employees irrespective of fluctuations in employment conditions. The Board of Directors is composed entirely of workers including both wage-earners and representatives of the managerial and supervisory forces. The employees receive the same rate of annual dividend (10 per cent) on wages as common stockholders receive on their stock. Moreover, after the payment of these stock and wage-dividends and the setting aside of another 10 per cent for an employee pension fund, the remainder of the profits are used to purchase common stock for employees. These purchases are made for the employees collectively, the stock is held collectively, and in time the employees will own and control the company.

In general, it may be said that from a democratic standpoint its principles and procedure are all that could be desired, and it furnishes a practical example which should be followed by establishments with a small operating force in which the methods of direct democracy are possible. It is analogous in industrial democracy to the Swiss canton in political democracy. While the principles which it has so successfully applied are the same which must be followed by any industry seeking to establish industrial democ-

racy, more elaborate machinery and methods, and a closer relation of machinery of cooperation to processes and output, are necessary for the larger or basic industries.

Rights of Employees Too Limited Under Filene Plan

The Filene plan is a remarkable development and shows the vision and democratic spirit of the members of this firm. It recognizes the inevitableness of industrial democracy but does not go far enough in meeting it to afford a general basis of constructive action. There is an evident fear of popular industrial rule, and a caution in extending rights to employees growing out of a distinct lack of confidence in popular industrial government. The attitude of the firm, as a matter of fact, resembles somewhat in industrial life the conservative Hamiltonian point of view in political democracy when our Constitution was formulated, as contrasted with the extreme democratic attitude of Jefferson and his associates.

The Filene plan, as has been pointed out, has no union agreements. Neither does it deal with a union, or a definite independent organization of employees with dues, as the basis of collective bargaining. All collective bargaining and cooperative activities are at the expense of the company. There is strong support of the legal minimum wage, and special rewards or rates of pay are given for effi-

ciency and productivity. In the range of working conditions, it is unique in the democratic control given to employees. Their powers of self-government are practically absolute. The employees, by a two-thirds vote, may even override a store rule or regulation put into effect by the management or owners. Disputed questions between employees and management are also arbitrated by boards made up entirely of representatives of employees. Management is unrepresented. Unlike any other plan in existence, judicial determination of disputed points is made solely by the duly selected representatives of the employees.

Beyond these remarkable powers of local self-determination, the democratic rights of the employees do not extend. The amount to which individuals shall participate in profits is fixed by management. In its policy of distribution of profits to employees, the company is very liberal, having given to employees an average of approximately 42 per cent of net profits each year during the past decade, but there is no agreed basis or joint-arrangement between employees and company. Management arbitrarily decides who shall participate and the amount of participation. There are no elements of democracy in the procedure. It is really a system of individual bonuses to stimulate personal efficiency of employees.

There is no provision for enabling employees to acquire stock in the company, and thus, by right, to have a voice in the administration and control of

its affairs. A panel of employees is selected annually by the cooperative council of the Association, and from this panel management selects four and on its own action three other employees, or altogether a majority of the whole, to sit on the Board of Directors of the Company. This procedure is both democratic and beneficial to employees and employers. It is, however, a concession of management, perhaps temporary, and does not look to the democratization of industry by employee ownership and control.

Other features of this plan in relation to the principles of industrial democracy have already been discussed. There are, in short, many admirable features about the Filene plan so far as the promoting of good will and cooperative effort of employees is concerned, and its system of self-government in the range of working conditions is without precedent, but the plan as a whole is too centered in management, as well as too restricted in scope, and, as a consequence, is unacceptable as a constructive basis for genuine democracy in industry.

The spirit behind the plan, from the Company standpoint, cannot be too highly praised. The President of the Company has publicly asserted that industrial democracy is inevitable, and that the attitude of employers should be to extend democracy in industry, so far as is possible, without impairing the efficiency of industry, or, in other words, democracy in industry should be made more complete as rapidly as employees can practically and effectively

exercise rights and control.[2] With this point of view as the basis of procedure, the Filene plan, in the future as in the past, may be expected to evolve gradually into a more comprehensive, and entirely acceptable democratic arrangement.

The Dennison Plan—Control by a Special Class

By virtue of its unrestricted attitude on distribution of profits to employees and its liberal attitude towards labor organizations, the Dennison plan is unique. It also has special features such as unemployment prevention, a housing fund for its employees, and others, which should become parts of any well-ordered system of industrial democracy.

Despite these highly commendable features, however, the Dennison Manufacturing Company plan of industrial partnership cannot be held as worthy of acceptance as a foundation for the industrial democracy of the future. It will be recalled that in the case of this establishment, the original owners agreed to take preferred stock for its agreed-upon value, to permit supervisory and managerial employees to control and operate the company, and to receive in Industrial Partnership Preferred stock all the net profits of the undertaking, provided 8 per cent dividends were regularly paid on the first preferred stock given to the owners. In other words, this class of employees agreed to buy the company, to

[2] See pp. 59-60.

pay the owners 8 per cent on a mutually agreed-upon price, and to reinvest all the net profits in the business, but to take the equivalent of these profits in the form of a partnership preferred stock upon which cash dividends would be paid.

The plan is, therefore, not democratic. The great mass of wage-earners, while they have an equal voice with management in the determination of wages and working conditions, have no element of stock control and no means of acquiring stock in the company, with the exception of the comparatively few who are promoted to supervisory or managerial positions. About 400 supervisory and managerial employees now control the company. The total number of employees is approximately 4,200.

Since the establishment of the original plan in 1911, and the inauguration of a cooperative scheme in 1916, the small group in control have given to a selected number of wage-earners a one-third participation in profits in the form of Employee Partnership Certificates but this stock is non-voting. Under these conditions, therefore, a comparatively small group of supervisors and managers absolutely control the undertaking, or, in other words, the system, however generous and acceptable it may be in spirit, is in form an oligarchy or autocracy and not a democracy. The only way by which it can be made to conform to democratic standards is for all classes of employees to be given voting stock and for men and management to share in profits according

to their earnings or by some special arrangement. As it is, part of the wage-earners, or approximately about 90 per cent, have been given one-third of the money gains of the enterprise but no share in the ultimate control, and no possibility of acquiring a share in control. As time goes on and employees in general have demonstrated their fitness to assume responsibilities, they should be given voting-rights as well as a share in profits.

The Dutchess Bleacheries Plan—A Limited Partnership with Employees and the Public

From the standpoint of collective bargaining and local administration, this plan is all that could be desired. Its employee representation scheme is not completely based on unions, but there is no discrimination, and agreements are made with such groups of employees as are organized into unions. A board of operatives not only handles grievances, but housing and other local matters affecting employees, and a joint board of management, equally representative of employees and employers, determines wages at going or competitive rates, and arranges working conditions. Furthermore, employees are guaranteed an equal share with capital in net profits of the undertaking, and are thus given a fair participation in cooperative gains. Both employees and the public are extended representation through one member on the board of directors of the company.

From the standpoint of the operation of the plant itself and the locality in which it is located, the plan is admirably democratic. Ultimate control, however, rests in capital, through the board of directors. Employee and public membership on this board is more in the nature of representation or as a guaranty to wage-earners and consumers that their interests are being safeguarded. In its final analysis, therefore, this plan provides for plant democracy, an equal participation by employees and employers in any profits above a stipulated and reasonable return to capital invested, but the ultimate control rests with the employer. Through representation on the directorate, and thus acquiring an insight into all the facts and problems of management, employees and the public have assurances that their interests are being protected, but there is no provision for further extension of employee or consumer control. The plan, in short, so far as participation or control in profits is concerned, differs only from the usual profit-sharing scheme in two respects: (1) through the generous proportion or one-half of the net profits given to the employees, and (2) by giving employees representation on the directorate as an evidence of cooperation and good faith. In its general features, the plan is, therefore, unusually democratic and liberal, but in its ultimate aspects it does not meet the requirements of industrial democracy. This specific defect could be remedied by permitting the employees to purchase, from earnings or their share of profits, the common stock of the company and

thus gradually secure an equal measure of control with the employer or management.

The Printz-Biederman Company—Industrial Autocracy Under Democratic Forms

The system of so-called industrial democracy introduced in this company by John Leitch may be considered representative of plans of this type. It derives its name from a transference of the governmental machinery of the American Constitution to industry. The names used constitute, however, the only analogy to political democracy, or to democracy of any type. The system, in fact, is absolute autocracy masquerading in the clothing of democracy. Its closest analogy is that of the government of Great Britain when the King still held autocratic powers, and the powers of the House of Lords were unimpaired. Under the Leitch plan originally established in this Company, there was a House of Representatives composed of representatives of the workers, and a Senate constituted of operating officials, and a Cabinet made up of the officers of the corporation. As a measure to be effective had to pass the House and Senate and be approved by the Cabinet, the situation in reality resolved itself into one where the representatives of the employees in the House could not act without the concurrence of the foremen in the Senate, and, if both House and Senate agreed, the officers of the Company in the Cabinet could veto their action. This veto, unlike

that of our Constitution, was absolute, as neither the House nor Senate, nor both, could pass a measure over the Cabinet's veto. The officers of the Company, in other words, absolutely controlled the machinery of so-called democratic government.

Although in this specific plan it was found necessary to abolish the Senate, as originally constituted, and substitute therefor a so-called Planning Board, the underlying principle of autocracy remained. Mr. Moore, President of the Trade and Labor Congress of Canada, aptly described this type of plan in 1919 as follows:[3]

> The Leitch Plan simply means that if that individual at the top is benevolently inclined there may be success, provided he remains so at all times, but if he is maliciously inclined, then it is autocracy in its worst form. But even if he is benevolently inclined, I doubt its success, for the simple reason that it is paternalism, and the workers of this or any other country do not desire, and entirely turn back, any offers of paternalism at this particular time.

This type of plan, as a matter of fact, cannot endure without "benevolent paternalism," as it is not based on any fundamental rights or safeguards to the workers but upon a certain moral code or series of standards or slogans, as it were, which assumes good faith upon the part of all concerned. When the good faith of the employer or the employee is broken, the system collapses. There are no democratic principles or rights involved which can

[3] "Proceedings of Canadian Industrial Conference," 1919, p. 155.

be effectively invoked by the employees, and even if there were, the employer could nullify them by his arbitrary control of the governmental machinery.[4]

Endicott-Johnson Corporation—Enlightened Autocracy or Paternalism

The system in operation in this company, which is one of the largest shoe and leather establishments in the world, located at Endicott and Johnson City, New York, so far as actual relations between management and employees are concerned, might be termed to a certain degree unformulated, direct democracy. When democratic machinery and rights are considered, however, it is a system of benevolent autocracy or paternalism. There is no formal plan of workers' representation or of employees' right. As a matter of practice the workers individually or collectively may carry grievances or requests through various stages to the head of the corporation. Two of the members of the board of directors are closely identified with the workshops. The employee welfare and educational work voluntarily supported and practised by the management is unsurpassed. The old conditions in manufacturing of personal contact between owners or management and employees have also been partially revived. Furthermore, the employees, after the requirements of invested capital have been met, receive one-half

[4] For a general discussion of this and similar plans see Leitch, John, "Man to Man"; Carpenter, O. F., *Monthly Labor Review*, August, 1920, p. 22; Commons, John R., "Industrial Government," Chapter 9.

of the profits. "Each year, after a 7% dividend has been paid on Preferred Stock, and 10% set apart on the Common Stock, the balance of the profits, if any," are split 50-50 between the employees and the owners of the common stock. Employees are encouraged to purchase preferred stock but are not offered any common stock, and, as a consequence, cannot acquire a participation in the control and direction of the corporation.

The company states that many times the workers have been told that they might have a voice in management, if they so wished, but the answer has always been the same, namely, that the workers were satisfied with the management and control of the business and did not desire any further representation.

This is an answer which might be expected at any time, however, under either a benevolent political or industrial autocracy. But the benevolent autocrat may in time be succeeded by one of opposite tendencies. Moreover, the teaching of political history—and the same will be true of the democratic movement in industry—is that men will not consent to be permanently dependent upon those above. They will demand specific democratic rights and guaranties. This corporation, therefore, in order to assure the permanency of its splendid achievements to the present time, should embody them in a written constitution which would guarantee the privileges now extended to employees as permanent rights together with the recognition of other principles and

standards, if it should be desired to democratize the undertaking.

The A. Nash Company, Inc.—The "Golden Rule" Unionized

The experience of this company has been remarkable to say the least, or as Mr. Nash would state it, "it has been an industrial miracle." Until the end of the year 1925, its development has been that of a pure democracy animated by the "Golden Rule." Sectional and mass-meetings of the employees met whenever necessary with officers of the company to discuss any matter of common concern —wages, hours, union affiliation, prices, economies and efficiencies. The only functions exclusively absorbed by management were those of banking and credit. Employees were given individual and stock bonuses, and permitted to purchase stock until they had acquired stock control of the corporation. The common objects of men and management were to establish proper working conditions, pay just wages, reduce prices, improve the quality of their products, and extend the business. In all of these aims they were successful.

With the beginning of 1926 the employees of the company, at the urgent advocacy of the employer, Mr. Nash, joined the union, the Amalgamated Clothing Workers of America. Union working conditions, rates of pay, and standards of production were at once established. There has been com-

plete coordination of the ideals of the old régime with the union. It is reported by management that in many respects costs have been lowered and standards of production advanced since the advent of the Amalgamated. The machinery of the union for collective bargaining and cooperation has been substituted for the direct democracy, or town-meeting form, which previously prevailed. The "Golden Rule" is still the constraining spirit of the organization. The conditions may be described as Christianized democracy, as it were, based on the labor union.

From a democratic and ethical standpoint, therefore, the situation of the Nash Company may be considered as theoretically ideal for the following reasons:

(1) The animating spirit, or the "Golden Rule," implies service to customers after the fundamental requirements of industrial democracy as to capital and labor have been satisfied.

(2) Collective bargaining and cooperation are on a labor union basis.

(3) The employees by their own savings together with the generosity of the management have acquired a controlling interest in the stock of the company, or, in other words, ownership has been democratized.

The employees have now been unionized, or, in other words, democracy and cooperation have been on a labor union basis for almost a year. If the tendencies which have already been shown extend

into the future, as they undoubtedly will, the plan under which this company is operating will constitute one of the most perfect forms of industrial democracy, so far as spirit and achievements are concerned, which have thus far been developed. Developments under unionization will be watched with intense interest.

The Mitten Plan as the Basis for a General Constructive Policy

The Mitten, or Philadelphia Rapid Transit Company plan, stands out preeminently from all other plans as affording an acceptable basis for a general constructive policy. This arises from its comprehensiveness and its fundamental soundness, both from a democratic and industrial point of view. It has also demonstrated its practicability, as it is not a new plan, but, as has been already pointed out, is of pre-war origin, and has been a slow, evolutionary development from experience. It is based also on sound and accepted principles of economics. Because of the over-shadowing importance of this plan, it will be profitable to review briefly its main features in the light of fundamental democratic principles and standards as follows:

(1) Its system of collective bargaining between employees and management is not based on labor unions, but the management has constantly stated, if their employees so wished and voted, that the plan would be coordinated with labor unions and union

dues deducted or "checked off" the pay-roll. The way is, therefore, open for the coordination of the plan with labor organization. This should be done even if the initiative of management should be required to bring it about. This acceptance of the labor union is essential before its system of collective bargaining may be made basically democratic. It is a matter for regret that the original arrangement for inaugurating the plan in 1911 on a labor union basis was not successfully consummated.

(2) As it is, the cooperative association of employees, the general organization for selecting employees' representatives to deal with management, is not a mere name, which is true of so many employee representation systems, but a definite, independently functioning organization, which collects dues from individual members and joins with management in defraying one-half the expenses of joint activities.

(3) There is no discrimination against employees because of membership in labor unions.

(4) The wage-scale is adequate. The basis of the scale is in the rates of pay to motormen and conductors. Their rates serve as an index, and in the event of changes, correspondingly higher or lower differentials are given to higher or lower grades of employees. The Public Service Commission of Pennsylvania, in a decision in a rate case in 1925, declared that the wages of train service employees were sufficient to maintain normal families of employees in health and reasonable comfort as

measured by scientific and official budgetary studies of the cost of living of employees' families.[5] In the year 1926 the Company made an innovation by creating an investigating bureau of its own to carry on continuous studies of the cost of living and by providing for automatic adjustments in wage-rates at regular intervals, according to living cost changes. This policy has the effect of a guaranty of real wages and standards of living of employees.

Unfortunately, the rates of pay of train service men became established, by precedent and practice in former years, as the index of wages in the industry. The basic rate should really, according to democratic requirements, be that of the lowest or unskilled workers, and these rates should be sufficient for the maintenance of wholesome living standards. As time goes on, therefore, it will be necessary to revise the wage-scale so that those in the occupational scale below motormen and conductors may be assured of decent and comfortable standards of living for themselves and their families. This should be brought about in future wage-advances by granting proportionately greater increases to lower paid employees until the very lowest have sufficient earnings for American living standards.

(5) Working standards of employees are generally satisfactory and may be expected to improve. By joint financial support and administration of management and employees, a proper pension system for cases of disability and superannuation is

[5] Majority Decision in Application Docket—No. 11417, 1924.

maintained, and provision also made for health and life insurance, and recreational activities.

(6) Under the cooperative arrangement in effect, management and employees work jointly to increase the volume of business of the company, to effect economies and efficiencies, and to reduce operating costs. After a return has been paid on capital invested, the employees and management share equally in the pecuniary gains of their increased productive efficiency. There is absolute equality in sharing pecuniary results, and no discrimination in favor of the managerial group as in the Dennison and other plans.

Additional net revenue remaining after these payments have been made inures to the benefit of the public in the form of lower passenger charges or better facilities.

(7) Employees and management also provide the additional capital required by selling new security issues to car-riders or the customers of the company. The underwriting commissions and other charges of the investment bankers are thus eliminated and also the company made free in its policies of any influence by those upon whom it might be dependent for capital or credit. This freedom from absentee banker control, which tends towards the absorption of earnings by unwarranted security issues and placing emphasis upon profits rather than efficiency, can scarcely be overstated either from the financial savings standpoint or from that of democracy and service. Furthermore, by securing as far

as possible new capital from its own patrons, the Company enlists the interest and support of its own car-riders or customers. The Board of Directors of the Company contains no representatives of bankers. The only member of the banking profession on the Board is one of three directors appointed by the city of Philadelphia to represent the public interest.

As an illustration of the practical application of this plan during the past year employees and management directly sold an issue of 7 per cent preferred stock amounting to $10,000,000, and an issue of 5½ per cent bonds of one of the underlying companies of the system amounting to $750,000. A considerable part of each of these issues was purchased by employees, and a part was sold by conductors to customers while riding on the cars.

(8) Through common counsel and collective action the employees have constantly invested their share of productive gains, or their money participation in the profits of cooperation, over and above their regular wages, in either the common or preferred stock of the Company. They now hold through their own trustees more than $10,000,000 par value, or more than 33⅓ per cent of the total common stock. The cash dividends on this stock are regularly distributed to individual employees according to their respective shares in the total amount of stock purchased.

(9) Through their collective purchases, the employees of the company are now the largest and the

dominant stockholders, and by this fact are represented upon the board of directors of the Company by two members and are practically in control. As they are still purchasing common stock collectively from their participation in cooperative gains, ultimately they can look forward to owning the Company.

In the Mitten plan, therefore, the machinery and the principles exist which measure up to every requirement of real democracy in industry, with the single exception that the labor union is not recognized as the basis of collective bargaining, or, in other words, the plan has not as yet been coordinated with the regular organized labor movement. With this objection removed by labor union recognition and affiliation, the plan affords an ideal basis for the future development of industrial democracy.

In Accord with Labor Union Constructive Programs

The plan in its objects is in accord with the fundamental constructive programs of the union labor movement as exemplified by the statement of labor leaders as to the principles of wage-determination and by labor organization claims before arbitration boards and other adjustment agencies. In its actual performance and its future possibilities it has also demonstrated the soundness and practicability of the constructive program for which labor has been contending for many years. It embodies also the

methods by which labor can hope to improve its economic status, and, at the same time, add to the effectiveness of industry. It implies lower operating costs, better wages and working conditions to the employees, and lower fares to the car-rider.

A number of important precedents illustrating this point might be submitted, showing the procedure under the Mitten plan to be fundamentally in accord with the best construcive program demanded by organized, trade-union effort, and, demonstrating that what has been vainly sought after elsewhere has to a large extent been practically obtained in Philadelphia.

Pre-War Railway Wage Arbitrations

Two of the most important and far-reaching wage arbitrations in this country occurred in the years 1913-1915. They represented the period when the arbitration of differences between management and men was fully accepted by the large Railroad Brotherhoods as provided for in the Erdman and Newlands Laws. One of these arbitrations which was held in New York City in 1913 embraced all the railroads and their locomotive firemen, east of the Mississippi and north of the Ohio and Potomac Rivers; the other, the proceedings of which extended over 5 months of 1914-1915, covered all the railroads and their locomotive engineers and firemen operating west of the Mississippi River. The proceedings in both of these cases were very formal and

large sums were expended by the railroads and their employees in preparing and submitting exhaustive statistical and other exhibits. The presentation of fundamentals by the employees in both arbitrations was the same, and was as follows:

(1) There had been a steady growth in the productive efficiency of engine crews as evidenced by the greater number of ton and passenger miles handled per crew.

(2) Labor costs or outlays for engine crews or firemen and engineers had steadily declined for each ton mile or traffic unit handled, despite increases in rates of pay.

(3) This development of greater productive efficiency, and of lower labor costs, had resulted in large net revenue gains to the railroads in terms of dollars and cents.

(4) If these revenue gains during past years had not been dissipated or improperly absorbed by fictitious security issues by the financial administration of the railroads, large increases in wages could have been given to all classes of railroad workers, a generous return paid to capital, and at the same time, freight and passenger charges reduced.

(5) It was acknowledged that part of these productive gains were to be attributed to railroad executives and managers, but these, as in the case of the lower grades of employees, were the victims of railroad financiers who had secured control of the railroads and banking houses which had acted as fiscal agents for the transportation companies.

(6) The request was then made that the employees be granted for the future a fair degree of participation in the results of their increased work and productive efficiency before such revenue gains could be improperly diverted by railroad financial control.

The claims of the employees, as buttressed by exhibits of the operating and financial performances of the railroads, were not officially recognized by the arbitration boards, especially in the Western Case, where the supreme effort was made. This led to great dissatisfaction and to the impairment of the spirit of cooperation among railway employees. They felt that their efforts were not recognized, that they were the victims of economic injustice, and without proper hope for the future except through the ruthless exercise of their economic strength. Arbitration as the basis of adjustment of differences was, therefore, denounced and abandoned. The Adamson 8-hour law was obtained by economic and political force, and the Plumb Plan for the ownership and operation of the railroads by employees and management was developed. Since these arbitrations the spirit of cooperation among steam railway employees has until quite recently steadily declined.

Post-War Railway Adjustments—1921-1922

These same arguments were advanced before the Railroad Labor Board in 1921-1922 in opposition to the unenlightened attempts of the railroads to

deflate the wages and working conditions, or gains in industrial democracy which had been obtained during the war. The employees claimed and showed that labor costs had decreased, productive efficiency had increased in terms of traffic units per employee, but other elements of operating costs had reduced the margin of safety to capital, and the attempt was being improperly made by those in financial control to reduce wages and to rehabilitate the credit of railroads at the expense of labor and the public.

But the railroad point of view prevailed and the incentive of employees to cooperate was practically destroyed. Output per employee in traffic units declined. Friction and strikes resulted. Since the year 1922, the chief problem of railroad management has been to regain the confidence and cooperation of employees.

The Anthracite Industry

Still another example is afforded by the conditions in the anthracite coal mining industry. In 1920, the United Mine Workers made an elaborate presentation to an arbitration commission created by President Wilson asking for an increased share in the output of the industry, and asserting that they were not given a fair participation. They claimed that the mine-workers and consumers were being exploited by a financial control and a monopoly which absorbed an undue proportion of output.

Their claims were not recognized, however, and the spirit of cooperation was seriously impaired. Arbitration as a means of settlement of differences was repudiated. The possibilities of collective bargaining were practically destroyed. It was evidently felt by the mine-workers that the unyielding attitude of the industry could only be met successfully by the exercise of the organized, economic force of the mine-workers. Unless a spirit of cooperation and mutual agreement can be established in this industry, governmental intervention is inevitable.

Attitude of Organized Street Railway Employees

Still another precedent was furnished by the attitude of the organized street railway employees before the Federal Electric Railways Commission in 1920. They claimed that street railway employees, by their work and cooperation in past years, had reduced operating costs, but the monetary results of their increased productive efficiency had been improperly absorbed by the financial practices of street railway corporations. They, therefore, demanded from the Federal Electric Railway Commission, as part of its constructive recommendations, the enunciation of a policy which would give street railway employees a monetary recognition of their efforts, and a fair participation in their productive gain.

These precedents are sufficient to show, conclusively, that so far as constructive programs or fundamental principles and aspirations are concerned, the most conservative and far-reaching labor programs are in accord with the principles upon the basis of which conditions on the street railways of Philadelphia have been so greatly improved. In other words, the conditions requested by labor in our basic industries, or a recognition in terms of higher pay and improved working standards of their increased productive efficiency, have been sanctioned in Philadelphia and practically applied by the Mitten plan and made the fundamental factors in its working arrangement.

What It Has Accomplished in Philadelphia

When the plan was adopted on the Philadelphia Street Railways in 1911, the record shows that from every standpoint conditions were deplorable.

(1) Physical facilities, including equipment, had been allowed to deteriorate to an alarming extent.

(2) Employees were antagonistic to the Company, strikes were frequent, and, furthermore, labor and operating conditions were greatly disturbed by intense factional fights among the employees.

(3) Requisite capital and credit were lacking.

By the introduction of the cooperative plan between employees and management, these conditions were rapidly overcome. Better service at less cost was quickly developed. Credit was gradually re-

stored. The owners of stock in the company were paid a fair and reasonable return. The rates of pay of employees were rapidly increased. Cooperation and increased productive efficiency of employees became the regular order of things, instead of friction, antagonism, and high operating costs.

Operating costs were reduced. A portion of this was given to labor for increased productivity and efficiency, and the remainder accrued to the benefit of capital and the riding public. The employees invested their share in the stock of the company, and their interest and responsibility were further stimulated by becoming part owners of the undertaking. At the present time, a situation exists as to cooperation between employees and the company, and as to the increased productive efficiency of employees, which is without precedent.

These achievements of the Mitten Plan were well summarized in a recent article on pending railroad legislation by Sherman Rogers in *Success,* as follows:[6]

> The Philadelphia Rapid Transit Company was in bad shape twelve years ago, very bad shape. It was a dilapidated property; it was a losing property; it had millions of outstanding stocks and bonds that apparently were of little value. A paralyzing strike was in progress, actual fighting had taken place and the outlook for Philadelphia Transit was mighty blue. Labor was strong and well organized. Capital in Philadelphia and those who backed the Philadel-

[6] *Success,* August, 1926, Article by Sherman Rogers entitled, "Now They Try Faith," p. 48.

phia Transit were very strong financially. Therefore a real battle was in progress when Thomas Mitten was called in.

Mitten agreed to take over the management of the line, provided that he was a manager in fact and not a rubber stamp. The bankers in Philadelphia accepted him for the same reason that the peasantry in Russia accepted the rule of Bolshevism. They decided that conditions in Philadelphia could not be worse. They didn't know whether Mitten could make them any better or not, but so long as he couldn't make conditions any worse than they were, they gave him a trial.

Mitten startled Philadelphia; he startled the industrial world. While he declared in no uncertain terms that he was going to be manager, he made it plain at the outset that he was going to lead men and not drive them. He announced that the sixteen thousand employees were going to have something to say about the operation of the Philadelphia Rapid Transit Company.

He brought out a most comprehensive plan of voluntary mediation, conciliation and arbitration. There wasn't an arbitrary note, or compulsory note in the Mitten program. He placed labor and the Philadelphia Rapid Transit in a position where they could get justice without going to war for it. They could get justice and he couldn't prevent them from obtaining it. On the other hand, labor couldn't take advantage of Mitten, either. They agreed to agree, men and management.

The men agreed that their first responsibility was to the public in Philadelphia. Their second responsibility was to the men who had invested money in the Philadelphia Transit. Their third consideration was for an adequate compensation to themselves.

This plan has been tried now for twelve years. The results are startling. There have been no strikes, although industrial strife in other sections of Philadelphia has been

conspicuous by its presence, at a time when tranquillity reigned on the Philadelphia Rapid Transit.

Mitten, men and management, through voluntary agreement, voluntary discussion and voluntary action have made good one hundred cents on the dollar every stock and bond in the Philadelphia Rapid Transit Company. They have rehabilitated a great transit system, re-equipped it from top to bottom, and placed it on par with any system of its kind in the world.

Furthermore, they have played fair with the Philadelphia public. I mention this fact for the reason that the enemies of the Watson-Parker bill claim that if the public is not represented in discussions between railroad management and railroad labor these factions will take advantage of the public by creating a wage scale that will cause an arbitrary and unfair freight rate. This idea is a misguided one for two reasons; first, the Interstate Commerce Commission sets freight rates. It would make no difference what management and labor agreed on, if the Interstate Commerce Commission said no. They end the argument. Secondly, in actual practice on the Philadelphia Rapid Transit it has been definitely proven that men and management have more consideration for the public than they would if a third party sat in their tribunal, for the simple reason that they recognize through joint voluntary discussion that they must have the sympathy of the public if they are to create patronage.

There is no healthier public utility in the United States to-day than that same Philadelphia Rapid Transit Company, where management and men brought order out of chaos and brought prosperity out of despair through the instrumentality of voluntary discussion, and an agreement that would voluntarily arbitrate any differences that would ever arise.

There you have it. Compulsory arbitration failed in Kansas, a state where it should have succeeded, if it were possible for it to succeed. The Philadelphia Rapid Transit Company through a voluntary agreement of men and man-

agement that they would mediate has proven signally successful in a place where it might have failed, for the reason that in its inception it was opposed by both organized labor and organized capital.

Practical and Not Revolutionary

The Mitten plan is, therefore, not academic or theoretical, but it has a background of practical achievement. Neither is it revolutionary or disrupting. Furthermore it is not paternalistic. It does not give away anything. Everything is earned. It does not reduce but stimulates the maximum industrial efficiency and productivity of employees and the industry as a whole.

By its unique feature of eliminating the investment banker and its direct sale of securities, it enlists the financial support of the consumers of the service or products of an industry in the industry itself. It is also in harmony with the post-war pronouncements of the churches relative to industrial democracy, and with the most enlightened and disinterested opinion on the same subject. In Philadelphia, it has been developed in connection with a public utility or public service corporation, but it can just as well be applied to any form of industrial or commercial undertaking. Its application to coal, iron, steel, transportation or other corporations in the basic industries, or to mercantile or commercial undertakings, would, as a matter of fact, be less difficult than to a public utility. It would also practically bring what is now private in-

dustry, ruthlessly conducted for profit, to the point where it would not only be industrially democratized from the standpoint of wage-earners but to a public utility method of operation from the general consumer's point of view. When the democratic requirements of the industry itself were satisfied as to wages, working conditions, and control, additional gains would not be dissipated or absorbed by ordinary financial practices to the advantage of those in control, but they would be available for producing better or cheaper commodities for consumers.

Its Constructive Possibilities

If such a plan of operation had been adopted by the steam railroads, or the bituminous and anthracite mining industries, or the steel industry fifteen years ago, or when the Mitten plan was inaugurated on the Philadelphia street railways, the industrial order of today would be quite different and exceedingly more satisfactory from the wage-earner's and consumer's standpoint. Instead of being underdeveloped and lacking in facilities, the railroads would be at a much higher point of efficiency and service. Hundreds of millions of dollars which have been wasted or made a permanent drain upon their revenues because of domination by investment bankers and financiers, would have been invested in needed facilities and equipment, costs, freight and passenger charges would be lower, the compensation of employees would be higher,

employees would have purchased a large proportion of control and would have been important factors on railroad directorates. Instead of friction, controversies, and costly strikes, management and employees would be working together in a spirit of common counsel and cooperation, and there would be no threat now or for the future of recurring dislocations to trade and industry through railroad strikes.

Likewise, if such a plan had been in operation in the coal industry there would not now be the diseased conditions of over-development, ruinous competition, intense and bitter labor troubles and general unprofitableness and worse prospects for the future, in the bituminous coal mines. Conditions of production would be more stabilized, unnecessary competitive wastes eliminated and warfare between operators and mine-workers supplanted by a spirit of cooperation and efficiency. In the anthracite mines, monopoly conditions now prevailing would have disappeared with great advantages to the workers in the mines and to the users of hard coal. In both branches of the coal industry, domestic and industrial consumers would have been spared the tremendous losses which have arisen from recurrent strikes and dislocations. All of this, moreover, would have been accomplished without any impairment of property rights and with probably better and more uniform returns to capital invested than have been secured under the conditions which have prevailed.

Probably the best example of what might have been done under the Mitten plan can be illustrated by the coal situation in Great Britain. If this plan had been in effect there, the coal strike, accompanied by the general sympathetic strike and national industrial breakdown, could never have occurred. Instead of fighting each other, miners and operators would have approached the problems of the industry in a spirit of common counsel and accommodation. The industry and its processes would have been reorganized to meet the new conditions. Efficiencies, economies and new methods would have been jointly put into effect to reduce costs and to carry on. Such readjustments and such a spirit would have gradually overcome the difficulties.

No situation could have been worse in an industry than before the Mitten plan was put into effect on the street railway lines in Philadelphia. The company was financially without resources, its facilities and equipment were antiquated and inadequate, and the employees were fighting the company and engaging in factional fights among themselves. But by the cooperative arrangements of the Mitten plan the property was rehabilitated, the welfare of the employees improved, and the employees themselves converted into a cooperative helpful factor. But the British coal industry, both as regards employers and employees, took the opposite course of action, and the condition of the industry has steadily grown worse, and tends to even more unfortunate

conditions. It has been demoralized by the gradual attrition resulting from industrial antagonism and conflict. The Mitten plan would have offset these tendencies by a constructive, democratic method of procedure.

The Ford Plan and Mitten Plan Contrasted

So far as efficiency, economy, the elimination of the investment bankers, the lowering of costs, the increasing of the volume of business and the reinvestment of surplus earnings are concerned, the Ford Motor Company method is on all fours with the Mitten plan. In its administration, however, the former is not democratic. It is exceedingly autocratic. Employees are not permitted to have any form of organized collective bargaining, no control in management or administration, and they are stimulated to increased productivity by the offer of individual bonuses in addition to real wages. Neither is there basic hope for the future of the undertaking except possibly in the next generation. It is expected that Mr. Ford's son, Edsel, will carry on his policies. But after that what? Nobody knows. But if this industrial autocracy should be eliminated and democracy along the lines of the Mitten plan substituted therefor, what would happen? The Ford Motor Company could now be partly democratized in the joint-determination of wages and working conditions. Through stock purchases employees along with management would also exercise a large

degree of actual control. Management and employees would have also been trained to carry on together, and the future of the undertaking would be assured.

The Best General Constructive Basis for Industrial Democracy Now in Operation

Without further citation of illustrations either of what is or what other industries might accomplish under its provisions, it is apparent that the acceptance of the principles and methods of the Mitten plan by labor unions and employers, with the recognition of labor unions by employers as a starting point, would stimulate the rapid and permanent development of industrial democracy in a form which would properly supplement our political democracy, and make assured the ultimate realization of our democratic hopes and aspirations. There would be a new industrial order which would represent greater efficiency and productivity and the fruits of which would be exceedingly great gains in human welfare and happiness. The losses of industrial conflict, as well as the danger of revolutionary and radical action, would be eliminated. These would be supplanted by a democratic, constructive, evolution which would safely develop in accordance with the responsibilities placed upon management and employees in industry. Individual effort and ability would still be the constraining force in industrial life but it would be properly subordinated to a

reasonable and practical spirit of cooperation and service.

Features Which Might Be Added to Mitten Plan From Other Systems

No other plans of employee representation contain any fundamental standards of industrial democracy not included in the Mitten plan with the exception, as already mentioned, of placing collective bargaining in the Mitten plan on a labor union basis. There are certain secondary features of other plans, however, to which Mitten men and management might give consideration. These are as follows:

(1) Unemployment prevention.
(2) Improvement of housing facilities for employees.

Unemployment prevention and protection against unemployment are more important from the standpoint of mining and manufacturing than from that of a public utility. The public service corporation must operate continuously whatever general conditions may be. Industry under private direction, however, may suffer from changes in demand for its output, or from general conditions of depression outside of its own activities. Measures should be taken to offset the suffering from unemployment which inevitably results. The extension of the Mitten plan outside the public utility range would render this imperative. In this connection, the

policy and experience of the Dennison Manufacturing Company is the most instructive. A fund was first established as a basis for unemployment insurance. It was later found, however, that by far the best policy was to concentrate on unemployment prevention through managerial action. This has been done and the unemployment problem minimized by (1) intelligently studying conditions and anticipating changes, (2) by postponing all work possible to postpone to subnormal periods, (3) by keeping the number employed to the minimum, and (4) the interchange of workers between different departments.

Assistance to employees in acquiring their own homes at reasonable prices and without exploitation has also been successfully worked out under the Dennison plan. The employee is required to make a small initial payment on the cost or purchase price; a first mortgage is then secured from a cooperative bank and a second mortgage through a revolving housing fund which has been set up for the purpose. The employee is thus saved all brokerage and commissions and is able to build or buy on the most advantageous cash terms.

Some General Conclusions

As a general result of the study of the various types of employee representation plans, and of the Mitten and other outstanding plans in particular, there are several conclusions which stand out

clearly, and which are of fundamental importance from a practical standpoint. They constitute the very essence of efficiency and democracy in industry, and are necessary to the complete realization of industrial democracy in a practical way.

In the first place, it is obvious that a definite, independent organization of employees is an essential preliminary to cooperation and industrial democracy. The standard labor organization fully meets this need, and all systems of cooperation or industrial democracy should be based on or coordinated with labor organizations. Under these conditions, questions of discrimination, or of the open or closed shop, would not arise. Cooperation being the end sought and cherished, and the union being the basis for the cooperation of employees, a one-hundred per cent trade-union membership would be desired by management. Moreover, the "check-off," or the deduction of union dues and assessments, would be a part of a democratic, cooperative régime in industry, and would be desired by the employers. This is conclusively demonstrated by the practice of employers at present under employee representation schemes which are not based on a union. Under a system of genuine cooperation, employers are anxious to do everything to strengthen and facilitate the work of the organization of employees.

In the second place it should be borne in mind that the best method of extending participation in revenue gains to employees and management consists in the allowance of a certain proportion of gross

revenues, or, in other words, to start with the established ratio of labor and management costs to total gross receipts and guarantee this ratio. This will enable both labor and management to participate in lower costs of operation and in the increased volume of business resulting from their own efforts or from the growth in population and the demand for commodities and services. Under this procedure, management may, as in the case of many public utilities and private industries today, be paid a certain proportion of gross revenues as its fee, it being obligated under this arrangement to pay all necessary items of managerial expense. This is the method which was first adopted under the Mitten plan in Philadelphia but which had to be abandoned when it was translated into the form of a wage-dividend to employees, because of the interpretation of the Public Service Act by the Courts. It has the advantage of a direct stimulus to employees of all groups to strive for economies, efficiencies, and increased business.

The same result may be obtained in a more restricted and less satisfactory way by establishing a ratio of labor cost for a certain group or for all employees to the total operating expenses, and guaranteeing a participation to employees in any reduction in costs, or, the cost of a unit of output. By way of illustration, a ton or passenger mile on a railroad may be selected as the cost basis. This is the basis upon which shopmen under the "B. and O." plan are asking for participation in revenue gains. It is

also the basis upon which railroad employees have contended since 1913 for a share in the results of their increased productive efficiency. While, in general, it is an equitable basis of procedure, it has as compared with the preceding method, two disadvantages: (1) the ratio of labor costs to total operating costs may be affected by other factors than labor outlays, and (2) it does not give employees any direct participation in an expansion of the volume of business to which they may have contributed. It does, however, in a general way, guarantee a fair share to workers in the results of their increased work and productive efficiency, but it is usually difficult to compute. An agreed-upon percentage to labor and management of gross revenues, as has already been stated, is the most practical and fair basis, this participation to be given collectively to each group, and used by it, after deduction of salaries, wages, and expenses advanced, in any way in which the group may decide.

In the third place, it is an irresistible conclusion from experience that the only practical hope of a complete realization of industrial democracy or the ownership and control of industrial undertakings by employees, lies in the *collective* purchase of common stock. Individual stock purchase plans have been a failure. The individual employee does not retain his stock, and the common stock of industrial corporations purchased by employees does not remain in the hands of employees actually at work.

The success of the Mitten plan in developing re-

sponsibility and cooperative effort among employees is largely due to the fact that they have used their participation in earnings in *collectively* purchasing and voting the common stock of the Company for which they work until at the present time they are practically in control. In a different way, the achievements of the Dennison Manufacturing Company plan have been due to the same policy of restricting the holding of voting stock to management and supervisory employees actually in service. The Bank of Italy plan is proceeding upon the same basis.

Profit-sharing, or the participation of employees in the gains of cooperative effort, do not amount per individual employee to very much (a hundred or more dollars each year at the most) even under the most favoring circumstances. But taken collectively, the aggregate return is large, and, if invested collectively in the common stock of a corporation, will under normal conditions soon give employees a controlling interest. Under such a procedure, if wage-earners received a share in productive gains of only 10 per cent of their wages annually and invested it collectively in common stock, they could within a decade acquire a controlling interest in our basic industries such as hard and soft coal mines, steam railroads, iron and steel mills and furnaces, and other branches of mining and manufacturing. The provision also that when leaving the employment of a company, or, in the event of death, an employee or his heirs shall be

paid in cash for his share of the stock held collectively, insures the continuance of the democratic control and administration of industry by those who work for it from generation to generation.

The acquisition of stock collectively and collective holding and voting it through trustees or voting trusts is also as democratic in its method as individual holding and voting of shares. As a matter of fact, the ends of democracy are probably better served by collective acquisition and voting, as this method requires conference, common counsel, and the determination of policies by the most sound and intelligent individuals and groups. Trustees also may be made quickly responsive to those they represent by providing for short terms of office, or by specifying in the voting trusteeship certain policies which they shall follow.

In the fourth place, the emancipation of industry from dependence on banking groups for capital and credit is of the greatest importance in the achievement of industrial democracy. It will enable surplus earnings to be reinvested in industry, and not be made the basis for the issuance of new securities which would absorb these earnings in the future. It will also prevent the policies of industry from being determined by alien banking interests which are more concerned with earnings and dividends than with real industrial service. Pending the more complete democratization of the methods of corporation finance by legislative measures, progress in industrial democracy requires the provision of new

capital, so far as possible by the sale of securities direct to patrons or consumers, by employees and management of industry itself, as in the case of the Mitten plan in Philadelphia.

Finally, it must needs be borne in mind that industrial workers constitute a large part of the total number of consumers of industrial products, and their interests as consumers, as well as the great body of other classes of consumers of industrial commodities, must be considered in plans for the achievement of democracy in industry. Fortunately, it is now realized that adequate wages and proper working conditions may go along with reduced operating costs and lower prices. As a matter of fact, also, since the democratization of industry will mean greater efficiency and output, the reduction of waste, the investment of surplus earnings in better capital facilities, and freedom from the losses and handicaps of past methods in corporation finance, as well as the holding of industrial securities by actual patrons and consumers, it must inevitably follow that consumers will be protected and served and not exploited.

VIII

THE FUTURE OF INDUSTRIAL DEMOCRACY

Aside from scattered attempts, however, towards the practical application of democratic principles in certain industrial establishments in this country, what results may we expect in the future from the more comprehensive and fundamental movement for democracy in industry?

Following the close of the war, the whole world, as has been shown, was alive to the need of industrial democracy. Constructive proposals were being vigorously put forward, not only by labor unions, churches, political parties, employers' associations and other agencies, but were being seriously considered and debated by the leading commercial and industrial nations of the world. The movement was the immediate outgrowth of the general yearning for a new world after the war. It was a product of the spirit of humanity, cooperation and unselfishness engendered by the war.

It could not endure in the face of the economic dislocations following the Armistice. The old, ruthless spirit of selfishness again began to revive. The hope of a new world was temporarily lost sight of in the turmoil and bitterness of industrial conflict and in the face of a general costly deflation of

post-war business and industry. Men became so absorbed with their own reverses and losses, and their own individual problems that they were forced to put aside constructive ideas and visions of a new economic order. Reaction set in, hopes and aspirations born of the war period were shattered, the flares of industrial democracy no longer blazed.

The nations abroad have remained absorbed in their own war-begotten economic problems. The tide has there turned from democracy to autocracy not only in political but in industrial life. Men have seemed to desire strong hands to assume dictatorial control and to guide them through their unprecedented difficulties. Democracy in Europe has been, as a consequence, in the case of several nations, temporarily supplanted by autocracy and dictatorships.

In the United States after the industrial and financial breakdown in 1920-1921 the pendulum swung in the other direction. As the creditor nation of the world, gold in fabulous amounts flowed to our shores. Prosperity, after 1922, returned in an unprecedented form for an unprecedented period of time. There are even now no intimations of its subsidence. Our people have been absorbed with material things and with the advancement of their own economic and financial well-being. Idealism, in all forms, has, as a general rule, been temporarily put aside. Constructive social and economic reforms have been placed in the background. The lamps of industrial democracy, and of other for-

ward-looking movements are still burning, but prosperity has taken away their brilliance. They will never probably shine forth as the beacons of a new era, as was the case during the period immediately following the war. The movements which they represent, however, will go steadily but less dazzlingly forward, and in the fullness of time, industrial democracy, as in the case of political democracy, will encompass the earth. This is inevitable.

From the General to the Particular

How this movement will develop is also now becoming apparent. It will evidently proceed in two ways: (1) by individual experiments in industries, localities and plants, such as the plans of employee representation which have been discussed, and (2) by general education and political action.

The movement for industrial democracy during the past few years has been concentrated on individual instances—upon more or less isolated experiments in single plants. Out of these beginnings have come some comprehensive and acceptable results, as in the case of the Mitten plan, and many features of other plans. These will be adopted by other establishments and industries. One experiment and acceptance of industrial democracy will follow another. The movement will be from the particular to the general. Industries, and finally groups of industries, will follow the successful ex-

amples. Industrial democracy will thus gradually spread within industry itself.

Education and Precedent

This expansion will be accelerated by the education of the public, but especially of the employee and the employer. Already, as it has been seen, the employers' conception of the functions and objects of industry have, to a radical extent, been changed. This new attitude will be extended from the more forward-looking groups, where it is now centered, to others. The wisdom of the acceptance of fundamental, democratic standards in industry will become more increasingly apparent to the leaders of industry. It will become evident that increased efficiencies and economies can be best attained by a democratic spirit of common counsel and cooperation. It will be shown by actual experience that the maximum results in industry can only be achieved by the observance of democratic principles and standards, by joint-action between employers and employees, and by the employer placing increased duties and responsibility upon the industrial workers as the condition of more extended employee control in industry.

With the wide acceptance and the gradual penetration of new democratic standards into industry, they will become customary and traditional. They will grow into industrial law, and will in time receive a political sanction. Our political Constitu-

tion will thus be gradually extended to include an industrial bill of rights embracing democratic principles and standards. The individual will be able to invoke these guarantees against industry, just as the individual may now invoke his rights of personal and civil liberties against governmental autocracy.

During the four years following the Armistice it constantly seemed that the invaluable experience gained from dealing with industrial problems during the war would be utilized to insure industrial peace, efficiency, productiveness, and democracy. Several attempts were made in the Congress to enact industrial codes or bills of rights modeled after the principles of the National War Labor Board, which, if successful, would have given a legislative sanction to the fundamental principles and standards of democracy in industry. The most noteworthy precedent was the attempt of Senator Wm. S. Kenyon (now a United States Circuit Judge), then Chairman of the Senate Committee on Education and Labor, to secure approval of an industrial bill of rights for the coal mining industry. In this effort he was supported by President Harding, who in his annual message to the Congress, in December, 1922, recommended the consideration of a code of principles for the general guidance of industry, and the creation of machinery for its interpretation and application. If favorable action had been taken by the Congress upon these proposals it would have been the most constructive

action in the extension of democracy since the adoption of the original Bill of Rights to the Constitution.

The Labor Provisions of the Transportation Act of 1920 were also a step in the same direction. They contained seven principles and standards which were made mandatory upon the Railroad Labor Board in rendering decisions as to wages and working conditions. The practical performance of the Labor Board, in view of the fact that it failed to accept other fundamental principles and standards for its guidance, demonstrated that additional legislation should be sought as a sanction to the rights of employees. If an effort had been made to have Congress declare these additional principles mandatory upon the Labor Board, railroad employees would have *ipso facto* secured all the rights and guarantees of industrial democracy so far as wages and working conditions are concerned. The deplorable performance of the Labor Board, however, defeated this constructive amendment. Its attitude of expediency and vacillation aroused such an overwhelming demand for its abolition that the constructive possibilities of the situation were lost sight of in an unreasoning desire to get rid of the Labor Board itself.

The movement legally to recognize the fundamental rights of labor and capital by the enactment of a code, or a Magna Carta for industry, and thus by recognizing formally the principles upon which industrial conflict is centered, such as, for example,

the right of employees to organize and bargain collectively through representatives of their own choosing, and other fundamental principles which are the cause of warfare between industrial autocracy and democracy, is constantly growing in strength and will finally meet with favorable action. It is supported by enlightened public opinion, not only because of its justice and its desirability from a democratic standpoint, but also in order to free industry and the public from the dislocations and tremendous losses which result from controversies over these principles. The best industrial leadership has already voluntarily accepted these principles and standards. It is now probable, as has already been stated, that their success under these principles will inevitably lead to their acceptance by their more reactionary associates.

General Political Action

In order to come to the full realization of industrial democracy, however, there is a broader field of political activity which is necessary. Industry must be made to serve the interests of the people in a just and reasonable way and not be permitted to use popular government to exploit the people. This means that all monopoly and other special privileges and favors which have been improperly obtained by industry from the government must be eradicated. Commercial and agricultural banking and credit facilities have already been democratized. The fur-

ther problem remains of democratizing the so-called investment and private bankers, or their methods of financing and of furnishing credit facilities to industrial undertakings, and thus emancipate industry from its dependence on those who now control capital and credit. The unregulated control of credit and capital facilities by private bankers is the greatest existing menace to both industrial and political democracy.

A very significant step has already been taken in this direction by the provisions of the Transportation Act of 1920 which require the railroads to submit all proposals for new security issues, or plans for consolidation or reorganization to the Interstate Commerce Commission, for the sanction of that body. The importance of this legislation, both in its direct effect and as a precedent, when its application is carefully worked out, can scarcely be overestimated. Already the Commission has refused its approval to large consolidations of railroad properties, such as the so-called Nickel Plate Merger, because of their financial structure. Recently also, it ruled that short-term securities, such as equipment trust notes, must be submitted to public bidding, and sold at the best price obtainable. The extension of this regulation to other forms of securities, which is inevitable, means that private banking houses can no longer arbitrarily control railroad properties by acting as their fiscal agents, which has been the general condition in the past. It also will result in competitive bidding for securi-

ties, and the establishment of reasonable commissions for their sale and distribution, or, in other words, the realization by the railroad companies of a larger proportion of net proceeds from their security issues.

The indications are also that these precedents in the control of the administration of railroad finances will be extended to all forms of industrial and commercial corporations engaged in interstate commerce. Professor W. Z. Ripley's protest against the issuance of stock of no par value, which has been a favorite device of overcapitalization in recent industrial flotations, has met with widespread commendation. His more recent declaration that corporations in interstate commerce should be required to make detailed reports to the Federal Trade Commission has been no less favorably received. The transition from these proposals to federal regulation of security issues and to all aspects of the financing of such corporations is but a short step. The best legal authorities agree that the federal government can at least require a license from firms and corporations engaged in interstate commerce, and can impose reasonable conditions for the issuance of such licenses. The imposition of conditions to a federal license would also carry with it the authority to create or designate existing machinery, such as the Federal Trade Commission, to see that such conditions are obeyed.

The prohibition of the conduct of industry along lines opposed to the highest human welfare has also

required, and will still continue to require, legislative action. It makes necessary the legal prevention of night work and the proper regulation of the day work of women and children, the establishment of safety devices and processes, the control of occupational diseases, and similar governmental measures. As the body of opinion and precedent within and without industry gives its support to fundamental standards, it will be possible to have these customs and practices sanctioned by legislative action. This will result in supplementing in a formal way our political democracy with industrial democracy.

The Present and the Future

The present situation and future tendencies are thus clear. It was thirteen years after our Declaration of Independence and eight years after peace with Great Britain before we had formulated our Constitution and established a stable political government. Furthermore, more than a century had passed after the American and French Revolutions before political democracy had been accepted by the leading commercial and industrial nations of the world. Even now, the movement is still going forward among the more backward peoples and among those who have but recently had the advantage of Western education and civilization.

The progress of industrial democracy may be expected to be correspondingly slow. If its acceptance

is to be widespread and permanent, it will come slowly by an evolutionary and not by revolutionary methods. It will be the outcome of education and experience. Radical action will only occur where those in control are too reactionary or too blind to see that they must adapt industry to this inexorable democratic tendency.

The danger of revolutionary action lies in attempting to perpetuate industrial autocracy. Our captains of industry and leaders in finance must realize for the advantage of our social and economic progress itself, that men will not consent to be politically free and industrially without freedom. The wise and successful leader in industry and finance will follow the advice of Mr. Edward A. Filene in his address to the Boston Economic Club when he stated that the only successful procedure for industry to adopt in the future is to have the least autocracy practically necessary, and the greatest democracy possible, or in other words, to reduce autocracy and increase democracy in industry as rapidly as it can be done without impairing industrial efficiency and productivity. The extent to which this can be accomplished has already astounded those who have made sincere efforts as in the case of the Filene establishment itself, the Dennison and Nash Companies, and the more comprehensive Mitten experience in Philadelphia.

On the basis of what has been, what is, and what may be expected to be, the movement towards de-

mocracy in industry may, therefore, be briefly recapitulated as follows:

First. The principles and standards of industrial democracy have already been approved by the enlightened opinion of the civilized world—by the churches, political parties, publicists, statesmen, and by the formal action, in many cases, of legislative, judicial and diplomatic agencies.

Second. This body of opinion is constantly extending and growing in strength through education and experience. Even the outstanding leaders in industry accept the conclusion that the general movement towards industrial democracy is inexorable and inevitable. They realize that those who have achieved political freedom will inevitably obtain industrial freedom.

Third. While the general movement has been going forward since the subsidence of the intense post-war agitation in a more or less abstract or theoretical way, certain industrial leaders of vision who have recognized the trend of events have attempted within the sphere of their own influence practically to apply principles of industrial democracy. Where such efforts have been sincere they have been eminently successful. They have found, as in the case of the Filene, Dennison, B. and O., Columbia Conserve Co., Nash, Mitten and many other more restricted plans, that democracy in industry is profitable from every standpoint.

Fourth. These practical achievements will serve as models for the future. It cannot now be denied

that industry in the future, to be successful, must be democratic. The insincere systems of employee representation which have already been put into effect in this country—those established to offset unionism or the movement for genuine democracy in industry—must be remodeled in the light of a true intent or of general acceptance of the fundamental principles of democracy. Otherwise their failure is certain. If their sponsors are wise, they will accept unionism as the basis of collective bargaining, and also adopt the other fundamental principles of democracy in industry, such as just and reasonable wages and working conditions, the sharing of cooperative gains with employees, stock ownership and representation on boards of directors by employees, and the elimination of the investment banker by selling new securities direct to employees and customers. Unless they adopt these policies, they will find themselves outstripped in the competitive race for industrial efficiency and productivity.

The conclusion is, therefore, apparent that the pressure of enlightened public opinion acting through official and conventional agencies together with the economic strength of the organized labor movement will ultimately compel the democratization of industry. The rapidity of this process will depend upon the resistance offered by the autocratic elements in industry itself. An unreasonable attitude will stimulate conflict and revolutionary tendencies, entail enormous losses socially and indus-

trially, impede the progress of industry itself, and, finally, in any event result in the defeat of autocracy. The history of the past two decades, and especially of the post-war period, indubitably establishes this fact. If, on the other hand, the tendency towards industrial democracy is wisely accepted as inevitable, and industrial leaders sincerely attempt to adapt industry in a practical way to democratic principles and standards, not only will there be rapid gains in human happiness and economic well-being, but progress in industrial efficiency, productivity, and service, will be tremendously accelerated.

Industrial Democracy a Logical Supplement to Our Political Democracy

Both labor and capital must give up force and militant tactics, and cooperate under the general, fundamental principles of political and industrial democracy. In this method of procedure lies the peaceful evolution of industrial democracy under general principles which are fair to and protect the interests of all classes. "Class consciousness" and "class dictation" must be thus avoided. Otherwise, conflict and antagonism will be accentuated, and the just and efficient development of industry checked. Ultimately, it will also inevitably result in radical and revolutionary movements and in the destruction of capitalism and unionism as they are known today. Lord Leverhulme, the noted English industrialist, cogently analyzed the existing situation when he

said: "Our economic system is cracking and crumbling, and unless something drastic and far-reaching is done it will crash to the ground, dragging with it in its fall the whole structure of our western civilization, for our western civilization can continue only so long as our economic life endures.

"A new departure on the human side of business and industry requires to be made quickly. This new departure can only come from the man at the top, by the adoption of a wise and statesmanlike policy on the part of employers and managers who control our industries. If this is not accomplished by the man at the top, then it will come like a destructive, uncontrolled volcanic upheaval from the man at the bottom." [1]

The menace in the existing industrial situation in this country, and the wisdom, aside from human considerations, of establishing democracy and freedom in industry, have also been most effectively stated by Wm. P. Hapgood, whose practical success as President of the Columbia Conserve Company, in establishing the principles of industrial democracy in his own plant, have attracted a great deal of attention, both in this country and abroad. In this connection he has written :

> "Anyone who is acquainted with industry knows that it is not free. About 95 per cent of the people involved in it are virtually serfs. Work-

[1] "Business and the Church," edited by Jerome Davis, The Century Co., New York, 1926.

ers have almost no voice in the determination of their own industrial affairs, those affairs which have a tremendous importance upon their physical and spiritual well-being. So long as this system remains, that is, so long as the great majority of people spend more than half of that part of the day in which they are awake, in a situation which not only does not stimulate them, but which on the contrary deadens them, society is in danger.

. . . . . .

"What *is* the goal for which labor is striving? Labor is trying to get just a little freedom, such a a pathetic little freedom. Freedom from the domination of those who own, freedom to direct their own lives, freedom from the involuntary servitude of their mechanical lives, freedom to do some creative work. The desire for freedom is one of the strongest urges of the human heart, and it cannot be denied. Industry must accept it or perish."

If the middle class, which is predominant today, will not share in a democratic and reasonable way with the working class in industry, the working class will break through and dominate, as in Russia today —with communism and a dictatorship of the proletariat. Both reason and history demonstrate this deplorable conclusion if there is not a democratic and enlightened change in industrial relations. In this connection, it should also be borne in mind by those who fight democratic tendencies, that industrial

democracy does not oppose capitalism as a system. Capitalism is to remain but its autocratic features are to be removed. It is to be democratized. In other words, capitalism is to be subordinated to the principles and standards of democracy in industry. This will not impair, but, on the contrary, will add to the efficiency of capitalism.

The political democracy established by our forefathers recognized no classes—economic or social. Personal and civic freedom and independence were assured by general principles which were enunciated in the Declaration of Independence, and safeguarded in the Bill of Rights of the Constitution. They guaranteed liberty and equality of opportunity to all men regardless of their social or economic origin or condition in life. Likewise, the general principles of industrial freedom and opportunity must now be recognized and adopted as a supplement to our principles of political democracy. All classes will thus be protected, none will be exploited or dominated by another, and all will be enabled to cooperate for the good of all. The destiny of America, if we are to follow the fundamental principles and aspirations of our self-governing institutions, will be to eliminate all class consciousness and conflict, by proceeding in industry as in political life, under fundamental principles and safeguards, which will be just and reasonable to all, and which will guarantee human liberty, democratic, representative industrial government, and equality of opportunity to all classes.

APPENDIX A

Digest of 80 Plans for Employee Representation
Prepared for Wm. S. Filene's Sons Co., Boston, and included in the Report of a Special Committee of The National Economic League on Readjustment in Industrial Relations, *The Consensus*, Vol. VIII, No. 4, July, 1923. The National Economic League, 6 Beacon St., Boston.

DISTRIBUTION OF MANAGEMENT FUNCTIONS IN 80 PLANS FOR EMPLOYEE REPRESENTATION

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Key to Abbreviations

M—Management E—Employees J—Joint committee management and employees A—Arbitration
Arrows show order of procedure Parentheses indicate consultation with body represented by appropriate letter

Company	Wages and Hours	Working Conditions	Discipline and Discharge	Efficiency	Managerial and Business Policies	Profit Sharing and Other Financial Schemes	Adjustment of Grievances	Service Activities	Final Decisions
Knox Hat Company.....	M	M	M	M	M		J	J	M→A
Fayette R. Plumb, Inc....	M	J	E + M	M	M		J		J
Durham Hosiery Mills..	M	M	M		M		J		M
Bethlehem Steel Corporation	J	J	E + M	E + M	M	M	E→J→M	E + M	M→A
Colorado Fuel and Iron Company	J	J	E + M	(J) M	M		J	J	J→A
Jacomb E. Decker & Sons	J	J	M	M	M		J→M	E + M	M→A
Procter & Gamble.....	J	M	M (E)	M (E)	M + E	J	J→M	J	M
International Harvester Company	J	J	M (E)	M	M		J	J	J→A
Peoples Gas Light & Coke Co.	J	J	J	M	M+(J)		J→M→	J	M→A
Commonwealth Edison Co., Chicago	J	J	J	M	M		J→M→	J	M→A
Standard Oil Company, Indiana	M (E)	M (E)	M	M	M		J→	M	→A
S. F. Bowser & Co.	J	J	J	J	M		J	(J) M	J (3E) (2M)

Youngstown Sheet & Tube Company	J	J	E + M	E + M	M		E→J→M	E + M	M→A
Midvale Steel & Ordnance Co.	E + M	E + M	E + M	M	M		J→M	M	A
General Electric Co., Lynn, Mass.	J	J	M	M	M		J	M	M
American Multigraph Co.	E + M	E + M	E + M	E + M	M		J→M	E + M	M
Hydraulic Steel Co.	M	M	M	M	M				
Dutchess Mfg. Co.	J	J	J	J	M+1E	J	J	E	J+1A
American-LaFrance Fire Engine Co.	E + M	E + M	E + M	M	M		J	M	M
Shepard Stores	M	M+E	M	M	M	M	J	M	M
American Pulley Company	M+(E)	M+(E)	M	M	M		J	M	M
Autographic Register Company	J	J	J	J	M		J	J	J+A
E. I. Dupont deNemours Co. Dye Works	J	J	J	M	M		J		M
American Multigraph Co.	J	J	J	J	M		J	J	M
Rhode Island Arsenal	J	J	J	M	M		J		M→A
Standard Oil, N. J.	J	J	J	J	M	M	J	J	M
White Motor Company	J	J	J	J	M		J	J	M
Wm. Demuth & Co.	J	J	J	M	M	M	J	M	M
Goodyear Tire and Rubber Co.	J	J	J	J	M	M	J	J	M
Sprague Electric Works	J	J	J	J	M		J	J	M

DISTRIBUTION OF MANAGEMENT FUNCTIONS IN 80 PLANS FOR EMPLOYEE REPRESENTATION—*Continued*

Company	Wages and Hours	Working Conditions	Discipline and Discharge	Efficiency	Managerial and Business Policies	Profit Sharing and Other Financial Schemes	Adjustment of Grievances	Service Activities	Final Decisions
Art in Buttons, Inc.	M	J	M	M	M		J	J	M
James Hunter Machine Co.	J	J	J	J	M		J	J	M
Gilbert & Barker Mfg. Co.	J	J	J	M			J	J	M
Dennison Mfg. Co.	J	J	J	M			J		M→A
Walworth Mfg. Co.	J	J	M	M	M		J		M
Hale Brothers, Inc.	J	J	J	M	M		J		M→A
Swift and Company	J	J	M	M	M		J	J	J
Hart, Schaffner and Marx	J	J	J	J	M		J	M	J+A
Elgin Natl. Watch Co.	J	J	M	M	M		J	J	M
Philadelphia Rapid Transit Co.	J	J	J	J	M	J	J	J	J+A
Loyal Legion of Loggers & Lumbermen	J	J	J	J	M		J	J	J→A
Inland Steel Co.	J	J	J	J	M		J	J	J→A
Irving Pittsburgh Co.	E	E	E	E	M		E	E	E
Bethlehem Shipbuilding Corp.	J	J	J	J	M		J	J	J
James S. Fuller, Inc.	J	J	J	M	M		J	J	J→A
100 Bridgeport Mfrs.	M	J	J	J	M		J	M	M
Columbia Graphophone Mfg. Co.	M	J	J	J	M		J	M	M

Willys-Overland Company (Toledo)	J	J	J	J	M	J	J	J	M
Greenfield Tap and Die Corp.	J	J	J	J	M		J		J→A
Leeds & Northrop Co.	M	M	M	M	M		J→M		M
Sidney Blumenthal & Co. (Shelton Looms)	J	J	J	J	M	M	J	J	M
Reliable Stove Co.	J	J	J	J	M		J	J	M→A
Joseph & Feiss Co.	J	J	J	J	M	J	J	J	J
B. Edmund David, Inc. (Patterson)	J	J	J	J	M	M	J	M	M
Miller Lock Co.	M	J	M	M	M	J	J	J	M
Arco Co. (Cleveland)	J	J	J	J	M	J	J	J	J
Berkey & Gay Furniture Co.	J	J	J	J	M		J		J (M)
Printz-Biederman Co.	J	J	J	J	M		J		M
Riverside and Dan River Cotton Mills, Inc.	J	J	J	J	M	J	J	J	J (M)
Lake Torpedo Boat Co.	J	J	J	J	M		J	J	M
Wolverine Brass Works	M	J	M	M	M		M	J	M
American Rolling Mill Co.	M	J	M	M	M		J	M	M
LaCrouse Plow Co., Inc.	J	J	J	J	M		J		J (E→M)
Acme Wire Co.	J	J	M	M	M		J	M	M
Brooning Co.	J	J	M	J	M	M	J	M	M
Yale & Towne Mfg. Co.	J	J	J	J	M		J		M

DISTRIBUTION OF MANAGEMENT FUNCTIONS IN 80 PLANS FOR EMPLOYEE REPRESENTATION—*Continued*

Company	Wages and Hours	Working Conditions	Discipline and Discharge	Efficiency	Managerial and Business Policies	Profit Sharing and Other Financial Schemes	Adjustment of Grievances	Service Activities	Final Decisions
Everlastik, Inc.	M	J	M	M	M		J		M
Plimpton Press	M	J	M	M	M		J	M	M
Virginia Bridge & Iron Co.	J	J	M	M	M		J	M	M
Hickey-Freeman Co.	J	J	J	M	M		J	M	J→A
Davis Coal & Coke Co.	J	J	M	M	M		J	M	J→A
Timken-Detroit Axle Co.	J	J	J	J	M		J	J	J→A
Wayne Knitting Mills	J	J	J	J	M	M	J	M	M
Hercules Powder Company	J	J	J	M	M		J	M	M
Westinghouse Electric Mfg. Co.	J	J	M	M	M		J	M	M
Armour & Co.	J	J	M	M	M		J	J	J
McCallum Hosiery Co.	J	J	M	M	M		J		M
Pennsylvania System	J	J	M	M	M		J		M
Brooklyn Rapid Transit System	J	J	M	M	M		J		M
Traub Mfg. Co.	J	J	J	J	M		J	J	M

APPENDIX B

Employee Stock Holdings

I

Extracts from Summary of Federal Trade Commission Report on National Wealth and Income, Submitted May 25, 1926, in Response to Senate Resolution No. 451, 67th Congress, 4th Session.

Ownership of Corporations

"Although the wealth devoted to corporate business in 1922 is estimated to represent about a third of the total wealth of the country, it is the relative concentration or dispersion of stockholdings which determines the actual distribution of corporate wealth. In the present inquiry schedules requesting data on the number and kinds of stockholders were addressed to a list of 10,000 corporations selected by the Bureau of Internal Revenue in such manner as to be representative not only of size but of each of the 43 industrial groups into which the Bureau's returns are divided for tabulation. Returns were received by the Commission from 4,367 corporations with a combined capital stock amounting to over 9 billion dollars, or about 12 per cent of the capital stock of all corporations.

"For these 4,367 corporations the average holding of common stock per stockholder was $6,969, while the average of preferred stock was $5,211. The average holdings of common stock per stockholder ranged from $3,272 for electric light and power companies to $18,957 for manufacturers of lumber and wood products, while the average holdings of preferred stock ranged from $1,486 for service corporations

to $9,883 for coal mining companies. Nearly one-third of all the stockholders reported were holders of not more than $500 worth of stock (common and preferred) each. This proportion of small holders to total holders ranged, however, from 11.7 per cent for electric railroad companies to 53.8 per cent for petroleum mining companies.

"For corporations reporting the information, the stockholdings of officers, directors, and employees were an important part of the holdings of individuals. In the case of many smaller corporations all of the stock was held by officers and directors. Of the total common stock holdings officers and directors held about ten per cent. They held about six per cent of the total preferred stock. In number, however, officers and directors constituted only about two per cent of the total common stockholders and only about one per cent of the preferred stockholders. The employee stockholders comprised 7.5 per cent of the common stockholders reported and 3.5 per cent of the preferred stockholders, but employee holdings represented only 1.5 per cent of the common stock and less than two per cent of the preferred."

II

Table Showing in Summary, Comparative Form, Practise of Leading Companies in Selling Stock to Employees.

LIST OF FIRMS PERMITTING EMPLOYEE STOCK OWNERSHIP

Main Sources:

National Industrial Conference Board: Practical Experience with Profit-Sharing in Industrial Establishments, 1920.

National Civic Federation, Report on Profit-Sharing, 1920.

Daniel Bloomfield, Financial Incentives for Employees and Executives, 1923.

Metropolitan Life Insurance Company, Employee Stock Ownership Plans, 1923.

Name of Firm	Kind of Stock	Year of Issue	Representation on Boards of Directors	Address
American-LaFrance Fire Engine Co....	Preferred			Elmira, N. Y.
American Light and Traction Co.....	Common			
American Multigraph Co.	Common	1920		Rochester, N. Y.
American Rolling Mill Co.	Common			
American Sugar Refining Co.	Com. & Pfd.			New York
American Telephone & Telegraph Co...	Common	1915		New York
American Woolen Co.	Common	1921		
A. Nash Company, Inc.	Common			
Atlas Powder Company	Preferred	1913		Wilmington, Del.
Baker Manufacturing Co.	Common	1899		Evansville, Wis.
Bank of Italy.....	Capital	1925	Through trustee	San Francisco, Calif.
Bell Telephone Co. of Pa.	Preferred			
Belle City Malleable Iron	Preferred	1913		Racine, Wis.
Boston Consolidated Gas Co.	Preferred			

LIST OF FIRMS PERMITTING EMPLOYEE STOCK OWNERSHIP—*Continued*

Name of Firm	Kind of Stock	Year of Issue	Representation on Boards of Directors	Address
Boston Woven Hose and Rubber Co. ...	Common	1917		
Canada Cement Co., Ltd.	Com. & Pfd.			Montreal
Cleveland Twist and Drill Co.	Certificates of Participation.	1918		
Columbia Conserve Co.....	Common	1925	Board of Directors composed entirely of regular employees of the company	Indianapolis, Ind.
Commonwealth, Power, Ry. and Light Co.	Common	1916		New York
Commonwealth Edison Co.	Non-Voting	1906		Chicago, Ill.
Craddock-Terry Co.	Second Preferred			Lynchburg, Va.
Crane Co.	Preferred			Chicago, Ill.
Curtis Companies, Inc.	Employee Pfd. 7% c.			
Deere & Co.	Preferred	1919		Moline, Ill.
Dennison Manufacturing Co.	Managerial Industrial Partnership Stock and Employee Industrial Partnership Stock, Non-Voting		Managers own common stock. Representation	Framingham, Mass.
DuPont deNemours Company	Non-Voting Debenture and Preferred			Wilmington, Del.
Dutchess Bleacheries, Inc.....	Preferred	1918	One employee on Board of five members	Wappingers Falls, N. Y.

Eastman Kodak Co.	Common	1919		
Edmonds Shoe Co.	7% Preferred	1919		
First Nat'l Bank of Chicago	Capital			Chicago, Ill.
Ford Motor Co.	Investment Certificates			
B. F. Goodrich Co.	Common	1920		
F. P. Kirkendall & Co.	Common			Omaha, Neb.
General Electric Co.	Employees Investment Bonds.			
General Motors Corporation	Common			
Goodyear Tire and Rubber Co.	Com. & Pfd.	1919		Akron, Ohio
Great Northern Railway	Investment Certificates.	1900		St. Paul, Minn.
Graton & Knight Mfg. Co.	Common			Worcester, Mass.
Gulf Coast Lines	Common	1921		
Harsh & Chaphill Shoe Co.	Common	1914		Milwaukee, Wis.
Hart, Schaffner & Marx	Common			Chicago & New York
Harvard Knitting Mills	Certificates of Ownership	1920		Wakefield, Mass.
Henry A. Dix & Co.	Common	1920		
Hercules Powder Company	Preferred	1920		Wilmington, Del.
Hilo Varnish Corporation		1920		Brooklyn, N. Y.
H. P. Hood and Sons	Preferred	1914		Boston, Mass.
Hydraulic Pressed Steel Company	Common	1920		Cleveland, O.
Illinois Central R.R. Co.	Common	1893		Chicago, Ill.
International Harvester Co.	Pfd. & Com.	1915		Chicago, Ill.
Kelly-Springfield Tire Co.	Common			New York

LIST OF FIRMS PERMITTING EMPLOYEE STOCK OWNERSHIP—*Continued*

Name of Firm	Kind of Stock	Year of Issue	Representation on Boards of Directors	Address
Larkin Soap Co.	Common	1919		Buffalo, N. Y.
Lehigh Valley R.R. Co.	Common	1920		
Liggett and Myers Tobacco Co.	Common	1920		
Lincoln Motor Company	No vote stock			Detroit, Mich.
Los Angeles Gas & Electric Corporation	6% Cumulative Preferred	1921		
Marshall Field & Co.	Preferred			Chicago, Ill.
M. Lowenstein and Sons	First Preferred			
Montgomery Ward & Co.	Common			
Morris and Company	Collective Gold Bond Partnership Certificates.			Chicago, Ill.
National Biscuit Co.	Preferred	1901		New York
National Carbon Co.	Common			
National Cloak and Suit Co.	Common	1914		New York
New England Power Company	Preferred	1920		Worcester, Mass.
New Haven Gas Light Co.	Certificates of Ownership	1907		
Niagara Falls Power Co.	Common			
Philadelphia Rapid Transit Company	Com. & Pfd.		Representation on B. of Directors	
Penton Publishing Co.	Second Preferred	1917		

Pilgrim Steam Laundry	Common	1921		
Pittsburgh, Butler and Harmony Consolidated Railway and Power Company	Non-Voting Employees Certificates and Common		Three members of Board of Directors	Pittsburgh, Pa.
Pittsburgh Coal Company	Pfd. & Com.	1900	Stock purchased Employees' Association	Pittsburgh, Pa.
Procter and Gamble Company	Common	1887	Represented	Cincinnati, Ohio
Rochester Folding Box Co.	Employees Preference Stock			
Roycroft Shop	Preferred	1919		East Aurora, N. Y.
Russ Manufacturing Co.	Common	1915		Cleveland, O.
Samuel Elman Co.	Common			Syracuse, N. Y.
Schulte Retail Stores Corp.	Common			
Southwestern Bell Telephone Company	Preferred			
Standard Oil Company of Indiana	Common			Indiana
Standard Oil Co. of N. J.	Common			
Standard Parts Company	Common	1918		Cleveland, O.
Statler Hotels Corporation	7% Cumulative Preferred			
Strathmore Paper Co.	Special 7% Cumulative Preferred.	1920		
Studebaker Corporation	Com. & Pfd.	1913	When 20,000 shares are held a director will be nominated	South Bend, Ind.
Swift and Co.	Treasury Stock	1904		
Telling-Belle Vernon Co.	Common			
Trumbull Steel Co.	Common	1920		
Union Switch & Signal Co.	Common	1916		Swissvale, Pa.

LIST OF FIRMS PERMITTING EMPLOYEE STOCK OWNERSHIP—*Continued*

Name of Firm	Kind of Stock	Year of Issue	Representation on Boards of Directors	Address
United States Rubber Co.	Common	1912		New York
United States Steel Corp.	Pfd. & Com.	1903		New York
Wheeling Steel Corp.	Common	1920		
Wisconsin Telephone Co.	Preferred			
Yawman & Erlie Mfg. Co.	Non-Voting Cumulative 7% Preferred			
Youngstown Sheet & Tube Co.	Common	1913		Youngstown, Ohio

III

Extracts from a Report on Employee Stock Ownership Plans, Prepared by Policyholders' Service Bureau, Metropolitan Life Insurance Company, New York, N. Y., August, 1923.

EMPLOYEE STOCK-OWNERSHIP PLANS

Origin and Extent of the Movement

With the growth of modern commercial and industrial enterprise has come a desire on the part of many companies to establish a more distinct bond of interest between the company and the employees. Others in search of ways and means for stabilizing the working force or a substitute for a system of direct profit-sharing which they deem inequitable, have turned their attention to employee stock-ownership plans. Perhaps the most conclusive evidence of the spread of the movement is the large number of corporations now operating some form of an employee stock-ownership plan, and the large number of employees so participating. In several instances the employees by virtue of their holdings are represented on the Board of Directors of the corporation.

As was to be expected, the employee stock-ownership idea was first developed in its widest implications by large corporations, and as a result, these particular plans have received considerable publicity. The idea, however, has not been confined to large corporations, and we find today a great many comparatively small enterprises in which the employees are stockholders. If a complete list of companies having employee stock-ownership plans in one form or another were available, it would probably include several hundred concerns, many of which are comparatively small enterprises.

It will be seen, therefore, that employee stock-ownership, while still in the experimental stage, has found its way into a sufficient number of companies to command serious attention. The foregoing is not to be construed as an argument either for or against such plans. Such is not the purpose of this report. Its aim is simply to set down a record of available facts so that the reader may be able to judge better of the merits of the idea.

Arguments for Employee Stock-Ownership

Among the arguments advanced in favor of employee stock-ownership are:

1. That it teaches and encourages thrift and promotes the employee's knowledge of the workings of industrial and commercial financing.
2. That it establishes in the employees' minds the fact that they have a joint interest with their employer in the enterprise in which they are engaged.
3. That it tends to reduce labor turnover and makes for a more homogeneous and stable working force.
4. That it is a just and proper method by which employees may be rewarded in direct proportion to the success of the enterprise in which they are jointly engaged with their employer.

Argument Against Employee Stock-Ownership

Among the arguments advanced against employee stock-ownership are:

1. That stocks, of necessity, are speculative in character, and as such are not suitable investments for the savings of the employee, who in the majority of cases can ill afford to lose.
2. That the employee as a small shareholder is hardly convinced of his financial interest in the enterprise through the knowledge that he owns a few shares of stock, frequently without voting privilege.
3. That the possession of a few shares of stock would not deter the employee should he really wish to change his place of employment.
4. That the experience of companies during time of industrial depression has not been altogether satisfactory.

A Typical Plan in Outline

The examination of a number of plans seems to indicate a certain fundamental similarity of construction. The plan of the American Rolling Mill Company is quite typical, and the list (numbers 1 to 14), which follows is a brief summary of its outstanding features:

1. The company intends to make available at regular intervals a number of shares of stock.
2. A stated minimum period of continuous employment is necessary for eligibility.
3. Supervision over the operation of the plan by a finance committee or similar body is provided.
4. Payments are to be made in a limited number of monthly instalments, the company guaranteeing that the sum of the instalments plus the accrued dividends will equal the purchase price of the stock within the prescribed period.
5. The time during which subscriptions will be received is limited.
6. The number of shares which any one employee may purchase is stated (graded in accordance with salary).
7. The employee pays interest on balances due.
8. Dividends are credited to the employee's account.
9. Possession of the stock during the payment period and delivery is provided for.
10. A bonus is paid for the retention of the stock over a period of years.
11. Cancellation provisions are included.
12. There are provisions covering death or permanent disability.
13. The employee may name the beneficiary.
14. The plan also provides for lapse of payments and suspension or termination of employment.

In addition to the foregoing, most plans contain the following:

15. A provision reserving the right of the company to repurchase the stock at such a time when it would otherwise pass out of the possession of the employee.
16. A provision which forbids the pledge or assignment of the stock.
17. A provision reserving the right of the company to change, amend, or discontinue the plan at any time.

The seventeen factors noted above sketch in the fundamental outlines. There are four main types of employee stock-ownership plans. Three of these are considered in some detail in this report; the fourth has to do with profit-sharing, and as such, is not discussed at great length.

Three Principal Types

Type I.—Where the Cost is Borne Entirely by the Employee.

This type of plan seems to have found very widespread favor. The plan of the American Rolling Mill Company outlined above is of this type. The comparative chart of plans appended to this report shows eighteen other examples of this kind of plan. The stock is sold to the employee either at market value, at par, or at a discount, and the entire cost (including interest on unpaid balances) is paid in cash or on the instalment plan, usually the latter. The complete plan of the T. N. Benedict Manufacturing Company is given on pages 10 to 12 as an example of plans of this type.

Type II.—Where the Cost is Borne Jointly by the Company and Employee.

A number of companies have so arranged their plans as to provide for a contribution by the company toward the purchase price of the stock. This division of the cost is often contingent upon the retention of the stock by the employee over a stated period, as in the case of the Studebaker Company which contributes 50 per cent of the cost only when the employee keeps up his payments and remains in continuous service for four years. In the case of the Standard Oil Company of New Jersey the length of service provision has not been included. Other examples of this type of plan are those of the General Motors Corporation and the Standard Oil Company of Indiana. The plan of the latter company is given in full on pages 12 to 14 as an example of plans of this type.

Type III.—Where the Stock is Given to the Employee.

Some companies, as, for example, the Dennison Manufacturing Company, the Baker Manufacturing Company, and the John B. Stetson Company, present their employees with shares of stock. There are usually some such eligibility provisions as "good standing," length of service, or grade of position held. In cases of this kind, it is not uncommon for the company to retain possession of the stock, the employee receiving only the dividends. While the stock of the Pittsburgh, Butler and Harmony Consolidated Railway and Power Company carries no voting privilege, the employees may select, in any manner they see fit, three directors of the company. The plan of the Dennison Manufacturing Company is outlined on page 15 as an example of plans of this type.

The fourth type of plan which involves profit-sharing features is sometimes found as a variation of the foregoing types or as an added feature. In cases of this kind profits are distributed partially or entirely in stock. The amount of stock which the individual employee receives is usually determined by two factors, namely, (1) the initial division of the profits which accrue as a surplus over and above the amount necessary to provide the predetermined interest on invested capital, this surplus being divided equally between the employee and stockholders; and (2) the division of the employee's share on the basis of merit, length of service, or responsibility of position held.

Before passing on to a consideration of other factors, mention should be made of the practice of distributing stock as a reward for conspicuous service to the company. The United Retail Stores Corporation has issued a special kind of stock known as "Founders Shares" which bears a somewhat higher rate of return than other forms of company stock. These Founders Shares are distributed among employees as a reward for length of service, and for meritorious work done in the building up of the business during its earliest stages. Gifts of stock are sometimes made as a reward for inventions or other similar special services.

A Consideration of Other Factors

The Stock and Offer of Sale

The stock offered for sale to the employees is usually obtained by purchase in the open market. Sometimes a block of stock donated by a large stockholder, treasury stock, or other available stock previously undistributed is employed. The offer is usually limited either to common or preferred stock, a definite amount having been set aside for the purpose.

The general practice is to offer a block of stock for sale to employees once a year. Usually a month before the date set, the company sends out a circular letter to its employees stating that between certain dates they may enter their subscriptions for shares of stock. The terms of purchase are carefully explained, and the total number of shares available as well as the number an individual employee may purchase is indicated. The subscription blank which usually accompanies this circular letter often takes the form of a binding contract in which the employee specifically agrees to the terms of the purchase.

The Purchase Price

The stock may, of course, be sold to the employees either at the prevailing market price, at par, or at a discount. When the stock is offered at the prevailing market price, unless there is a retention bonus feature included in the plan, there would appear to be no reason why an employee should purchase the company's stock other than in the open market. The instalment payment option would hardly act as an inducement in a case of this sort since the employee usually pays interest on balances.

When the company's stock is selling in the open market above par it has been found desirable to sell the stock to employees either at par or directly at a discount in order that some inducement to purchase the stock from the company be present. This tends to obviate the very undesirable feature of having employees purchase stock merely to curry favor with the management.

The question of determining the proper selling price is undoubtedly of great importance and deserves most careful consideration when the inauguration of an employee stock-ownership plan is contemplated.

Eligibility Requirements of Purchasers

A considerable diversity of eligibility requirements exists in the various plans considered. The requirement most frequently included is continuous employment over a period varying from 60 days to 5 years. There are a few cases where the length of service requirement is greater than 5 years, but it is generally conceded that a restriction in excess of 3 years is apt to rob the plan of its efficacy. Some companies limit the sale of stock to officials and employees holding positions of a supervisory character, while on the other hand, the Pittsburgh Coal Company will accept subscriptions from the members of an employee's family. The Pennsylvania Railroad Company sells its stock to employees only through the medium of the employees' association. Other corporations extend the privilege of stock purchase to employees in affiliated or associated companies.

Limiting the Amount per Purchaser

A majority of the plans tend to limit the amount per purchaser on the basis of annual salary. Some companies place no restriction on the individual purchase within the limits of the total number of shares offered for sale, while others definitely limit the amount per employee regardless of salary or position held. The Firestone Tire Company has a sliding scale of amounts based on length of service. Most plans provide that fractions of shares cannot be purchased.

The Retention Bonus

In order that a definite financial incentive both for the purchase and the retention of stock may be provided, many companies pay a retention bonus varying in amount up to $5

per share per year. This bonus is paid either during the subscription period only, or for a definite stated period thereafter. The United States Steel Corporation pays a retention bonus of $5 per share for 5 years to employees who will keep the stock and "show a proper interest in the welfare and progress of the company."

A special retention bonus is sometimes paid pro-rata out of the fund accumulating through forfeitures. These forfeitures consist of retention bonus payments which have accrued on employee stock where the subscriptions have been cancelled prior to the expiration of the subscription period.

Payment, Interest and Dividends

Payments can usually be arranged for on a monthly or a weekly instalment basis with interest charges of from 4 to 7 per cent on the unpaid balances. These payments may be deducted from the payroll under the authority of the employee's subscription blank.

The duration of the payment period is important in that a compromise must be effected between a period long enough to allow for moderate individual payments and yet short enough so that the employee's interest in the transaction may be retained. Some plans now in operation provide for a ten-year payment period, but this is exceptional, the average being in the neighborhood of four years. Employers, generally, seem to feel that three years constitutes a satisfactory payment period.

Dividends accruing during the payment period are usually credited to the employee's account. The T. N. Benedict Manufacturing Company and the Montgomery Ward Company pay extra dividends when the yearly earnings of the company exceed 8 per cent and 7 per cent respectively. The Curtis Companies have an arrangement whereby the dividend rate increases with length of service.

Contributions by the Company

In plans where the cost of the stock is borne jointly by the company and the employee (Type II), the amount of

the contribution by the company varies considerably. The plan of Butler Bros. provides that 5 per cent of the annual net earnings, after deducting taxes but before deducting dividends and up to twice the amount of employee deposits in an investment fund, constitutes the contribution of the company. The Standard Oil Company of Indiana contributes an amount equal to 50 per cent of the employee's payments.

Settlement in Case of

(*a*) *Lapsed Payments*

Elaborate provisions are usually included to cover lapse of payments, suspension of employment, termination of employment, and the death of an employee subscriber. The form of these provisions is too intricate to allow for detailed discussion here. Briefly, complete lapse of payments usually results in the forfeiture of special bonuses such as the retention bonus, the employee receiving only the money paid in, plus interest.

(*b*) *Suspension or Termination of Employment*

As in the case of lapsed payments special bonuses are forfeited when an employee is temporarily suspended from employment if he does not immediately return to work when the opportunity offers.

When employment terminates and the stock has not been completely paid for, the same provision as in the case of lapsed payments usually obtains. When the stock has been completely paid for and employment terminates, the company frequently reserves the right to repurchase the stock. Occasionally, employees are permitted to continue payments after termination of employment.

In this connection, it is interesting to note that the Standard Oil Company of Indiana, through the Board of Trustees of the Employee Stock Purchase Plan, has recently issued the following notice to stockholders:

"Notice is hereby given to all employees of the Standard Oil Company (Indiana) that hereafter in all cases where an

employee strikes or for any reason quits his employment with the company without its consent, he thereby forfeits all rights to participate in the Annuity, the Employee's Stock Purchase Plan, and all other rights to recognition by this company based on continuous service."

(*c*) *Death of Employee*

The provisions covering death of an employee stockholder are usually similar to those for termination of employment. The American Telephone and Telegraph Company permits an employee's heirs to take up the stock. The right to name the beneficiary is specifically reserved for the employee in every case.

(*d*) *Cancellation of Subscription*

Most plans contain a cancellation privilege which may be exercised by the employee upon due notice. The Firestone Tire and Rubber Company pays the employee a part of the difference between the market price at the date of cancellation and the subscription price. These payments are credited in accordance with the length of time the employee has held the stock and thus a retention bonus feature and cancellation penalty are combined.

Right of Transfer, Assignment and Pledge

Practically all plans specifically forbid the transfer, assignment or pledge of stock by the employee during the instalment period. The National Cloak and Suit Company requires that the employee agree to hold the stock for five years.

Other Rights Reserved by the Company

The company usually reserves the right to amend, change or terminate the plan at any time. The right to withhold examination of its books is specifically reserved by some companies.

In order that the plan may be properly administered some

form of trustee board or governing committee is provided for. In smaller organizations this function may be entrusted to an officer of the company.

The Voting Privilege and Representation on Board of Directors

Where a special form of stock is sold to employees it usually carries no voting privilege. The Dennison Manufacturing Company which distributes two special forms of stock gratis has an arrangement whereby the stock given to the "Employee Industrial Partners" carries no voting privilege, while the stock given to the "Managerial Industrial Partners" does carry a voting privilege to the exclusion of all non-employee stockholders. The latter receive dividends but have no say in the management of the affairs of the company.

The Procter Gamble Company and the Pittsburgh, Butler & Harmony Consolidated Railway and Power Company are examples of companies where the employee stockholders are entitled to representation on the Board of Directors.

Miscellaneous

The General Electric Company plan has a provision whereby subscription stamps valued at 50 cents each are sold to employees. When a sufficient number of stamps has been accumulated the employee may exchange them for a $10 bond.

The First National Bank of Chicago requires an employee to be a member of the Bank Pension Fund before he may purchase stock. The Bank will loan money to employees at 4 per cent to enable them to purchase stock, the stock being held as collateral by the Bank.

As an inducement to purchase company bonds, Morris & Company distribute profit-sharing Certificates to employee bond holders in an amount corresponding to the face value of the bonds held up to an amount equal to one-half the employee's annual salary.

Some Comments on the Installation and Administration of a Plan

After a satisfactory employee stock-ownership plan has been devised there still remain two important matters which require special attention. The first is the proper presentation of the plan to the employees, and the second, the proper administration of the plan.

Experience seems to indicate that the most satisfactory results can be expected only where the plan is presented in such a manner as to leave little doubt in the minds of the employees as to its purpose, its scope, and its plan of operation. The plan should not be presented as a form of thrift or savings plan without specific reference to the probable changes in the value of the stock. Some companies have thought it wise to analyze the value of their stock together with an honest estimate of what they believed its future possibilities to be. Procedure along these lines begets confidence and does much to avoid the undesirable suspicion of paternalism.

Confidence is perhaps the most valuable adjunct to the publicity necessary to bring the plan forcefully to the attention of the employees. This confidence can be spread most efficaciously through the foremen and those holding key positions in the organization. The cooperation of these individuals must be solicited, and they must be given an opportunity to so thoroughly acquaint themselves with the aims and operation of the plan as to enable them to pass this knowledge along to the rank and file.

Bulletin boards, house organs, personal letters and addresses to the employees may be profitably employed in the presentation of the plan. One other important point is that of making it particularly clear in all announcements, bulletins, etc., that the plan is strictly voluntary, that there is no compulsion of any kind involved, and that the employee's standing with the firm will not be altered or affected in any way by subscription or non-subscription to the stock.

As has been intimated in a foregoing section, the administration of the plan is usually placed in the hands of a

Board of Directors or some special committee. It should be the duty of this body or individual, as the case may be, to administer the plan equitably in order that confidence in it, and by inference, confidence in the company, may be present at all times. The employee's reaction to the various phases of the plan should be studied continually so that when an occasion arises necessitating alterations they can be made at a time when they will do the most good. Several of the more prominent plans have undergone fundamental revision and alteration in the course of their operation in order that they might conform more closely to the requirements of the situations which had arisen.

Results from Plans Now in Operation

Since the results of the operation of an employee stock-ownership plan are principally intangible, it is difficult to arrive at any satisfactory measure of them. One of the few tangible measures is the percentage of employee stock-holders to the total number of employees. This shows a wide variation but is relatively higher in the smaller companies. The percentages range from 5 per cent to as high as 85 per cent with an average for the larger companies in the neighborhood of 22 per cent. The following summary shows the number of employees subscribing to stock of the United States Steel Corporation over a period of seven years, the average number of employees, the number of shares subscribed for, and the percentage of employees who were shareholders during those years:

	1916	1917	1918	1919	1920	1921	1922
No. of Employees ...	252,668	268,058	268,710	252,106	267,345	191,700	214,931
No. of Employee Subscribers ...	25,143	39,252	43,777	61,324	66,311	81,722	34,009
Percentage .	10	14	16	24	25	42	16
No. of Shares Purchased .	50,269	67,752	96,645	158,061	167,263	255,325	93,645

It is not to be concluded that all employee stock-ownership plans have been successful; many have not, and the failure

may be attributed to any one of a number of causes. The Dutchess Bleachery, Inc., which has been operating an employee stock-ownership plan in conjunction with profit-sharing, recently held a referendum vote in which the employees definitely turned down the company's proposition for the distribution of surplus profits in the form of stock, stating that cash was preferred.

The opinion of employers on the question of employee stock-ownership plans is quite divided and must be considered in the light of the particular conditions surrounding the operation of the plan. Where the stock is given to the employee or where the company makes a contribution to the cost of the stock, it is natural to expect a more favorable reaction, and the opinion of the employer as to the success of the plan will reflect this condition. Where the employee pays the entire cost of the stock the success of the plan will probably be influenced very markedly by one or all three of the following factors:

1. The percentage of skilled and unskilled help employed and the type of employees in the organization.
2. The prosperity of the company.
3. The relative amount of holdings by those in executive and minor positions.